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China Report

ECONOMIC AFFAIRS



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NATIONAL POLICY AND ISSUES

LIU GUOGUANG ON PRICE REFORM ISSUES, TASKS

Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 5, 11 May 86 pp 7-12

[Article by Liu Guoguang [0491 0948 0342]: "Circumstances and Issues In China's Price Reform"]

[Text] 1. In order to realize the goal of socialist modernization, China today faces the major tasks of transforming the economic structure and reforming the economic system. However, completion of these two tasks is restricted by irrational prices. The progress of modernizing China's economy will be severely hindered if we do not solve the problem of irrational prices. As a result, price reform has become a crucial issue in the further development of the entire national economy and in the further reform of the entire economic system.

2. Existing prices in China are highly irrational and involve two interrelated aspects. One is a serious distortion of the price structure that reflects neither value nor supply and demand. The other is an overcentralized system of price control in which the mechanism for price formation is very rigid. Serious distortions of the price structure are mainly manifested in: (1) Low purchasing prices of agricultural and sideline products. Since 1966 there has been very little increase in the purchasing prices of agricultural and sideline products. The purchasing prices of grain have remained basically unchanged and grain-growing at a loss was a widespread problem. (2) Irrational price parities between industrial Prices for some energy resources and raw and processed materials are too low while prices for some processed industrial products are too high. For example, in 1979 the profit to investment ratio in state-run industrial enterprises at or above the county level among energy and raw material departments were 2.1 percent for coal, 1.6 percent for iron ore, 4.4 percent for cement, 3.2 percent for ores used in chemical engineering, and 4.8 percent for timber selection; among processing industrial departments, they were 44.9 percent for rubber processing, 38.4 percent for dyes and paints, 61.1 percent for watches, 39.8 percent for bicycles, and 33.1 percent for chemicals. (3) Incomplete prices of construction products. Prior to 1980 the cost of construction products was the price, which did not include profit. Rent was even lower. The annual rent collected from 273 cities throughout the country was merely one-quarter of the expense on housing property management and

maintenance. (4) Low prices of communications and transportation, urban public utilities and service trades. (5) High price subsidies. This primarily involves the inversion of subsidized purchasing and selling prices of grain and edible oil, and so forth. Between 1971 and 1980 the state spent a total of 190,890,000 yuan on price subsidies, which was equivalent to 22 percent of the fiscal revenue during the same period.

Rigidity of the price formation mechanism is manifested in: (1) The power to fix prices is concentrated in the hands of the government, particularly the central government, while enterprises do not have the power to fix prices. (2) The forms of prices are dull, dominated by state-planned fixed prices. (3) Prices are over-controlled. Once prices are fixed it becomes very difficult to readjust them. It often takes 3 to 5 years to readjust the price of a product. The rigidity of the price formation mechanism is an important cause of the prolonged irrational character and even its intensification of the price system.

This rigid price formation mechanism is a necessary component of China's original and highly centralized economic system characterized by administrative coordination and material control. Under this rigid system, the main functions of prices are limited to: (1) being a statistical tool to measure the rise and fall of use value; (2) being a tool for the redistribution of national income, to centralize financial resources through price parities and price differences and used for the most pressing tasks of the state. But prices are often ignored as a function of accounting economic results, stimulating technology progress and guiding the disposition of resources. The irrational and rigid price structure formed this way cannot possibly be used for correctly evaluating the economic results of enterprises and departments; it proves unfavorable to the economization and rational disposition of social resources and hinders proportional coordinated development of the national economy. China's socialist economy has not developed in a sufficiently ideal way in the past 20 to 30 years, and this cannot be dismissed as one of the important causes.

3. Beginning from 1979, price reform has experienced a change from having a unitary to a dual goal. The restructuring of China's economy proceeded from expanding the autonomy of enterprises and the irrational price structure has caused enterprises to experience financial ups and downs in the course of expanding their autonomy. Readjusting irrational price parity relations and making the price structure rational to give production departments a generally similar profit rate have therefore become the most important goal of price reform. However, along with the intensification of rural economic reform and the all-out urban economic reform, planned readjustment of prices by the state is not only limited in scope by the state financial resources and society's capacity to endure it, but it is also outdated by changes in market supply and demand relations. Therefore, reforming the rigid price formation mechanism, making prices fairly reflective of supply and demand and regulating supply and demand have become the second goal of price reform. In the past 7 years, price reform has been carried out and pushed forward precisely along the dual goal of making the price structure rational and making the price formation mechanism flexible.

With respect to the price structure, since 1979 there have been 6 readjustments which are nationwide in scope and are of relative significance. (1) In 1979 the purchasing prices of agricultural and sideline products were drastically raised and more major agricultural products were purchased at higher prices. In 1983 the purchasing prices of agricultural products went up by 47.7 percent over 1978. Excessively low purchasing prices of agricultural and sideline products have undergone a great change. (2) At the same time when the purchasing prices of agricultural and sideline products were increased, in 1979 the retail prices of 8 categories of non-staple food and their corresponding manufactured goods in cities were increased by about 30 percent while corresponding price increase subsidies for non-staple food were issued to staff and workers. (3) From 1979, the producer prices of coal and some heavy industrial goods were readjusted one after another. The price of raw coal was raised by 30.5 percent, pig iron 33 percent and steel products 20 percent. (4) In 1981 the price of polyester cotton cloth was lowered and the prices of tobacco and liquor were raised. (5) In 1983 the prices of textile goods were totally readjusted, by which the price of chemical fiber textiles was lowered and that of cotton textiles was raised. (6) In 1984 the fees for railway freight and water transport of passenger and freight were increased, and in 1985 the fee for short-distance railway freight transport was further increased. The price structure was somewhat improved through these 6 major price readjustments, but irrational conditions did not undergo any basic change.

With respect to the price control system, initial reforms have been carried out in recent years. The authority of local government to control prices has been expanded and some power to fix prices has been handed down to the enterprises, reducing the scope of fixed pricing by the state and expanding the scope of participation in price regulation by market mechanism, gradually forming a mixed price system. In concrete terms, with the exception of grain, cotton and edible oil which are purchased according to fixed contracts by the state, the prices of most agricultural and sideline products have basically been left to market regulation; the prices of small commodities among industrial consumer goods have been entirely left to market regulation, and free prices are implemented instead; floating prices are basically used for textile goods among light industrial goods and electromechanical products among the industrial means of production; the prices of energy, raw materials and other means of production have gradually taken up the path of "double-track system" of price reform which combines "readjustment" (planned readjustment) and "letting go" (relying on market regulation).

(4) After 7 years of reform, many changes have taken place in China's price system which has begun to break away from the framework of traditional state-planned fixed prices, forming a transitional mode of "tiered double-track" system with a Chinese character. So-called "tiered" system is a form of pricing for different products which simultaneously includes state-planned fixed prices, floating prices and free prices. Under the "tiered" price system, planned readjustment of the price structure and readjustment relying on market regulation are separately carried out according to the products. Price readjustment prior to 1984 basically used this tiered form. So-called "double-track" system means for the same product, state-planned

fixed prices are implemented within state plan and market prices are implemented outside state plan. Beginning in 1984, with the double-track system of pricing of the means of production as the start, the new model of reform was begun whereby planned readjustment and market regulation of prices for the same product were simultaneously carried out. To a certain extent, the formation of the "tiered double-track" form of pricing has realized the dual goal of the price reform: (1) There has been some relaxation of the financial ups and downs of enterprises under the old and irrational price structure and some trades which had deficit begin to make profits. (2) The formation of prices of quite a few products can reflect and affect the relationship between market supply and demand, some prices have started to become an important parameter for readjusting production and sales and determining the direction of investment. In short, the results of price reform in the past 7 years are important. Readjustment of the prices of agricultural products has effectively promoted the development of agricultural production, enabling China to change from reliance on the import of major agricultural products to self-sufficiency in grain production and more than self-sufficiency in cotton. Price reform of industrial consumer goods has given impetus to product development of China's industrial consumer goods and many major products have basically satisfied the people's daily growing needs. To varying degrees, other price reforms have also played a role in readjusting prices and making them rational.

5. China's economy is now entering the Seventh Five-Year Plan period. In this new stage of development, we must lay the foundation of a new socialist economic system that is Chinese in character, and at the same time, on the basis of improving economic results, further readjust the national economic structure, ensure the realization of economic and social development in the Seventh Five-Year Plan and lay a good foundation for the vitalization of China's economy in the 1990's. Even though much results have been achieved in price reform during the past 7 years, compared to the needs of further developing China's economy and further restructuring the economic system, the price structure remains highly distorted and the price formation mechanism remains very imperfect. With respect to the price structure: state-planned prices of basic facilities such as energy, communications and news dispatch and certain basic raw materials are low while market prices are too high; the excessively low rent, retail prices of grain and edible oil as well as fees for some public facilities are still established on the basis of a large amount of financial subsidies. With respect to the price formation structure, we have not been able to form a mechanism that is flexible and suitable to economic development needs. Readjustment of prices which are controlled by state plan is still not flexible enough; some prices which can be readjusted by local authorities or enterprises are still over-controlled. In the tiered structure of the price formation mechanism the proportion of state-planned fixed prices remains high, representing about 40 to 50 percent of the output value of industrial and agricultural commodities, while in cases where the double-track system of prices, fixed prices within the state plan constitutes a larger proportion while the role of market prices outside the state plan is limited, making it difficult for the double-track system of prices to accurately reflect changes in market supply and demand. Moreover, excessive divergence of prices within the

state-plan result in the market clashing with it, chaos in the circulation system and serious reselling for profits. In short, China's economic development and economic restructuring demand continued intensification of price reform. Price reform remains one of the most important tasks in China's economic restructuring.

6. In order to basically realize the change in China's economic system from a centrally planned economy to a planned commodity economy in the Seventh Five-Year Plan period, it is necessary to complete the task of reform in three interrelated areas: further increasing the vitality of enterprises; developing and perfecting the market system; and changing state management of enterprises primarily from direct to indirect control. Price reform runs through the three major reforms and is an essential condition for successfully pushing them forward.

The fatal hindrance of traditional form of pricing to the reform of enterprises lies not only in that profits are too high or too low for different products under a distorted price system making it difficult to be an accurate yardstick to measure business results of enterprises thereby causing financial ups and downs among enterprises, or in that enterprises do not have the power to fix prices in the rigid system of price control and cannot promptly react to changes in relationship between market supply and demand. It also lies in the fact that the old form of pricing is an important factor in weakening the budget restraint of enterprises. Hardening the budget restraint of enterprises and building a self-restraint mechanism for enterprises are basic tasks in the reform of enterprises. If prices are centrally drawn up by the state, enterprises will be justified to haggle with the state by reason of inequitable prices, and likewise the state may use pricing to encroach on the autonomy of enterprises and make use of their economic achievements without making any compensation. Price reform is an essential condition in hardening budget restraint of enterprises and pushing the reform of enterprises forward.

Developing and perfecting the socialist market system is intended to strengthen the status and role of the market coordination mechanism within the entire system of economic regulation, which likewise cannot be separated from reform of the price mechanism. The price mechanism is the heart of the market coordination mechanism while the price system is the most effective signal system is the market coordination mechanism that relays information on changes in supply and demand. Strengthening the function of the market coordination mechanism in the rational distribution of resources poses an even greater demand on the price system. Through reform, not only must the price system reflect changes in the conditions of production thereby reflecting changes in the social labor consumption, but it must also reflect changes in the conditions of exchange, or changes reflecting the relationship between market supply and demand, in order to effectively give play to the role of market coordination mechanism.

As for the transition of the state's microeconomic control primarily from direct to indirect control, we must transform prices from being a tool for direct administrative control by the state to a parameter of economic regulation that exercises indirect control through the market, a point that needs no further elaboration.

7. Concerning the question of the goal-oriented model in China's price reform. As discussed above, through several years of reform, China's price system has begun to depart from the traditional framework of state-planned fixed prices, forming a transitional model of the tiered double-track system which has a Chinese character. In this transitional model, what will happen to the coexistence of state-planned and fixed prices, floating prices and free market prices in future economic restructuring? In the goal-oriented model of price reform, which of the three coexisting forms of prices should dominate? There are three different views on this question. The first view holds that state-planned fixed prices should play the principal role, supplemented by floating prices and then market prices. This price model has not deviated from the setup of the traditional price system. The second view holds that floating prices should play the principal role, supplemented by market prices and then state-planned fixed prices. The problem of this price model is that it will be difficult for the standard and range of floating prices specified by the state to eliminate the intrinsic chronic malady of state-planned fixed prices. The third view holds that market prices should play the principal role, supplemented by floating prices and planned prices. This price model is better conformed to the long-range goal of the overall economic restructuring. The ultimate system which China must achieve through reform should be one in which market coordination plays the principal part and in which there are planned guidance and macroscopic control. In such a system, prices cannot merely be a tool for computation or for the distribution of national income, but should function in accounting economic results, stimulating technological advance, transmitting information on supply and demand and guiding the distribution of resources. Obviously, state-planned fixed prices and floating prices cannot be equipped with these functions at the same time. Only market prices under given conditions can give play to all these functions. These given conditions are: (1) both parties in commodity exchange are principal parts with independent economic interests; (2) absence of widespread monopolistic factors; (3) presence of a buyer's market in which supply is greater than demand; (4) presence of open circulation channels and efficient circulation organizations. The new economic system realized through reform will generally be able to provide the essential conditions needed by these market price operations.

Of course, the market price system itself has shortcomings known to everyone. It is easily affected by radical changes in the relationship between supply and demand resulting in damage to the macroeconomic equilibrium. Moreover, it is difficult to avoid losses brought by post-regulation. Within certain bounds, state-planned fixed prices and floating prices can compensate for the shortcomings of market prices, reduce the degree of price fluctuation and control changes in the price level. Therefore, in the new price model, state-planned fixed prices and floating prices remain indispensable as key elements of compensation.

8. Regardless of the type of price reform adopted, it should aim at readjusting the price structure and making it rational. However, the kind of prices that can be considered rational is also debatable. One view

maintains that prices are rational as long as they reflect the relationship between market supply and demand and that it is unnecessary to design additional standards. Another view maintains that the basis of prices is value, rational prices ought to be those that reflect the relationship between market supply and demand on the basis of value. It seems that the latter view conform more to the present demand in China for readjusting prices and making them rational.

First, the use of value as a basic symbol of rational prices can guarantee an average profit rate of overall equality among all trades and professions. As for the standards used to compute the average profit rate (average capital profit rate, average profit rate of wages, or double channel average profit rate), it is a question that needs to be better resolved when calculating theoretical prices. Second, If prices are purely determined by the relationship between supply and demand, then when excessive price fluctuations or when excessive deviation between prices and value in this relationship are caused by monopoly and opportunism as well as other psychological factors of people responsible on both sides of supply and demand, such prices are not likely to be rational. Moreover, besides the standards of value and of supply and demand, a rational price system should also reflect policy requirements. State policies must not only eliminate monopolistic and opportunistic factors which hinder normal fluctuations in supply and demand, but they must also reflect the types of supply and demand to be encouraged or restricted, on which basis we will adopt different taxes, subsidies and other economic and administrative measures, affect or change the spontaneous market supply and demand relations in order to accelerate the formation of an industrial property structure and consumer structure that suit the needs of China's conditions and development. In short, whether the price system achieved is rational through price reform cannot be entirely judged by the spontaneous market supply and demand relations but necessary consideration must be given to the relations of product value and state policy requirements.

9. China's economic restructuring does not adopt the "wholesale" form, that is, for all aspects of reform, "accomplish the whole task at one's stroke", but it can only take the path of "gradual advance". This is the case with price reform. The change from the old price model to the new price model and from an irrational price structure to a rational price structure cannot be a one-time action of wholesale solution but can only be a process of gradual realization. This is because China's price system is totally irrational and quite a number of prices need to be readjusted. Moreover, these are frequently major commodities concerning the national economy and the people's livelihood whose contradictions between supply and demand are more acute. Sudden readjustment or market regulation will cause changes that are too extensive, and state, enterprises and the masses of people will find it difficult to accept. At the same time, we must take into account that the current market mechanism is still imperfect, laws and regulations of price supervisor and control are still unsound and the management levels of cadres are still unsuitable. As a result, we can only adopt the method of gradual advance and proceed step by step. Among China's economists today, few advocate the view that price reform ought to take big steps and to be accomplished in one stroke. The central issue of the debate is

whether the pace of gradual advance should be a little faster or a longer slower. The substance of the issue is how to do a good job in handling the relationship between making the price structure rational and stabilizing price levels.

10. It is clear from real life that in the course of price reform it is unrealistic to demand a zero price increase. If such a demand is made it will mean that price reform cannot be carried out. At present, the reform of China's price system is structural reform but not a general structural price readjustment. The general structural price readjustment is to increase the prices that are low and reduce those that are high, thereby under the prerequisite of strict control over the currency supply, we can maintain the stability of the general price level. The current structural reform of prices in China primarily aims at eliminating the state of controlled low pricing of some important commodities resulting from the past. Most of these controlled low-priced commodities are agricultural and mining products and belong to basic prices. Moreover, the irrational parities between the low prices of these basic products and the prices of other products were cumulated over a long period of time; the number of products that need to be readjusted are many and the extent of price adjustment is fairly great, which cannot hope to be completely absorbed by enterprises that produce follow-up products. As a result, to carry out structural price reform and readjustment will inevitably cause the general price level to rise. However, if changes in the price level and the corresponding growth of the needed currency supply are limited to the scope of readjustment of the irrational price structure, without adding the factor of inflation, then the rise in general price level will not be excessive. If we again adopt the guiding principle of proceeding step by step and spread the price increase brought by the readjustment of the price structure over several years, we can better ease the pressure of price increase and make it easier for all sides to accept. No doubt, the disadvantage lies in the ill effects of irrational prices on the national economy which may drag on for a long period of time. But in order to ensure stable development of the economy and social stability, it may be worthwhile to pay this price.

The amount of increase in the general price level is directly related to the society's capacity to endure price reform and is an important limiting factor to price reform. Price reform itself will cause structural increase in the price level, and if price reform and inflation occur at the same time, then the rate of increase of the general price level will further increase, which will affect our readjustment of the irrational price structure. The more the currency supply exceeds the needs of economic growth and readjustment of the price structure the greater will be the effect on the increase in the price index and the more price reform will be forced to slow down. Otherwise the two will fluctuate together and the situation will be very dangerous. If the currency supply is at just the right amount and its effect on the price index is minor, then the pace of price reform can be a little faster. In order to do a good job in handling the relationship between readjusting the price structure and stabilizing the price level, and in order for the price reform to make steady advance at a suitable speed, a very important issue for the present and the entire Seventh Five-Year Plan period is strict control of the currency supply and

the total demand of the society, prevention and elimination of inflation. Otherwise, the course of reform of the price structure and the change in the forms of prices will be adversely affected.

11. In what area should the next step in price reform begin? There are also different views on this question. Some maintain that we should start with perfecting the purchasing prices of agricultural products while some believe that we should begin by solving the inversion of purchasing prices of grain and edible oil and the excessively low rent thereby solving price "subsidies" from state finance, and so forth. Today, most economists in China lean toward the view that the next step in reform should start with price reform of the means of production and solving the prices of basic products such as energy, communications and raw materials. The main reasons are: (1) the prices of basic products are low, high prices of processed products are the crucial reason for the distorted current price system. The prices of basic products are the basic prices of the price system, each time they undergo a change all other prices are directly or indirectly affected. If these prices cannot be readjusted and rationalized first, it will be hard to imagine the rationalization of the entire price structure. (2) Basic products are the most important material basis of national economic development and are the part that should take the lead in development. Enterprises which produce basic products are mostly large and medium-sized state-run enterprises. Readjusting and rationalizing the prices of basic products first will both benefit advance development of departments which produce these products and is also an effective measure to enliven large and medium-sized enterprises. (3) Contradictions between the supply and demand of basic products are serious. By accurately arranging price signals we can obtain distinct economic results and can promptly build a good signal system needed by the socialist market system in order to readjust the investment structure and industrial property structure and improve the relationship between supply and demand. (4) Begin with basic products. Factors of price hikes are easier to be absorbed and digested by enterprises that produce follow-up products. In the current price system, the overall pattern of profit rates of different products are: industrial consumer goods are higher than the means of production, processed goods of the means of production are higher than basic products. When the prices of basic products are adjusted upward the capacity to endure follow-up products will be greater. (5) Changes in the prices of basic products have little effect on the price level of consumer goods. According to calculations, an annual increase of 10 percent in the prices of basic products will raise the cost of machinery products and light industrial products in the processing industry by 4 to 5 percent. The effect of upward price adjustment of basic products on consumer prices must go through a series of intermediate links as well as absorption and digestion by the processing industry, which has a great deal of leeway. The effects of price hikes will be greatly weakened by the time they reach the daily living standard of the people.

Based on the above considerations, people have advocated to make solving the existing problems in the prices of energy, communications, raw materials and other basic products as well as the corresponding readjustment and rationalizing the prices of various types of follow-up products the key starting area and central task of price reform in the Seventh Five-Year Plan

period. Corresponding plan to reform all other types of prices should coordinate with this strategic guiding principle. In view of this overall strategy, price reform in the Seventh Five-Year Plan can be divided into three preliminary, intermediate and final stages. In principle, the prices of products with serious contradictions of supply and demand are to be solved in the preliminary and intermediate periods. The intermediate and final periods will primarily deal with the chain reaction of price hikes of basic products. The prices of agricultural products can be separately dealt with at different times according to circumstances. Solution to the inverted grain and edible oil prices as well as excessively low rent should be carried out as complement to the planned readjustment of wages, and this needs to be studied carefully.

12. Reform of the prices of energy, raw materials and other basic means of production should continue to persist in taking the path of double-track coexistence and combining planned readjustment and market readjustment within and outside state plan. Practice of two different kinds of prices within and outside state plan for the same means of production is a special product under the conditions of China's implementation of reform by gradual advance. No doubt, as goods and materials are short in supply, planned prices are too low and cannot be readjusted, prices outside state plan are bound to emerge. However, the legalization of prices of the means of production outside state plan by which the double-track system of pricing was determined and widely popularized as a key measure in the price reform for the means of production is an event of recent years. Double-track prices appeared in the course of the gradual advance type of reform and is a central reflection of the coexistence of the dual system of the old and new, particularly the coexistence of the dual system of planning and dual system of material circulation. The basic thinking behind the double-track price reform is: gradual market regulation of a portion of the products of state-run enterprises within state plan which is allowed to enter the market and using the method of increasing the ratio outside state plan to reduce the originally high market price level, and at the same time use the method of gradual readjustment to enable prices within state plan to rise and to allow prices within and outside state plan to come close together and finally reach towards unification. The pros and cons of implementing double-track prices of the means of production are so evident that it has caused intense debate within economics circles. Its advantages are: (1) It can stimulate production to surpass state plan and production outside state plan; (2) it can make it possible for areas not covered by state plan to easily obtain means of production; (3) high prices outside state plan can promote economization and the need to control poor results; (4) it is characterized by flexibility and can also control the general price level by readjusting the ratio between distribution and allocation of products and free market circulation, give the flavor of economic regulation to the measures of planned distribution of the means of production. Its shortcomings are: (1) it easily clashes with state plan, affect key state construction projects and assurance of materials for key development departments; (2) it easily creates chaos in the realm of commodity circulation and makes market management more difficult; (3) it destroys the function of currency as a general equivalent; (4) multiple prices for the same item complicates accounting for enterprises and creates confusion in enterprise management;

(5) price differences within state plan stimulates the growth of small enterprises, protects backward enterprises, impels small factories to squeeze the large ones and the backward to squeeze the advanced, deteriorating the scale structure and technological makeup. Besides, excessive price differences within and outside planning will also create opportunities for speculation and profiteering. In view of the numerous problems the double-track system will bring, some scholars maintain that we must abolish double-track pricing as early as possible and practice unified prices. At the International Symposium on Macroeconomic Management held on the vessel Bashan on the Changjiang River last September, most of the Chinese and foreign scholars felt that double-track pricing of the means of production may be a creation of China's price reform but its duration should be shortened as early as possible for the transition from double-track to single-track system.

However, it should be clear that the total social demand is currently too high. In particular, as the scale of investment has not yet been able to reduce to a suitable level and as no basic change has taken place to the excessive demand on the means of production, prices outside state plan continue to be pushed upward, which will further widen the gap with prices within state plan. By then, regardless of reducing the ratio of planned allocated products or increasing the prices of products within the state plan, it will be difficult to reach the goal of transition from double-track pricing to unified pricing. In order to realize such a transition, first we must solve the problem of macroscopic equilibrium between the total demand and total supply in the national economy. If this problem is not solved, the double-track system of the planned system and the double-track system of the material circulation system as well as the double-track prices which centrally reflect the two cannot be eliminated. Moreover, before completing the transition of China's economic development strategy from speed-oriented to result-oriented development, and before completing the change in direction of the entire economic structure, it will be difficult for the time being to solve the problem of macroscopic equilibrium as described above. Therefore, it is perhaps hard to shorten by too much the length of transition from a dual system to a new unitary system and from double-track pricing to a new price system as Chinese and foreign economists have hoped. This transition may exist throughout the course of China's economic restructuring. This being the case, in order to coordinate with and accelerate the completion of China's economic restructuring, we should recognize the inevitability of double-track pricing during the transition period, make the best use of the situation, actively take advantage of double-track pricing and try our best to adopt effective measures to limit the various malpractices it brings.

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NATIONAL POLICY AND ISSUES

PRICE REFORM DURING SEVENTH 5-YEAR PLAN

Hong Kong LIAOWANG OVERSEAS EDITION in Chinese 16 Jun 86 pp 13-14

[Article by Chang Qing [1603 3237]: "Strategic Choices Regarding Price Reform in the Seventh 5-Year Plan"]

[Text] During the Seventh 5-Year Plan (1986-1990), which begins this year, China must lay the foundation for a new order with Chinese characteristics, on the one hand, and maintain steady economic growth even as it continuously adjusts its economic structure, on the other. Accordingly, price reform is a strategic battle the country must wage in the Seventh 5-Year Plan.

What Economic Growth Demands of Price Reform

Although the Chinese government took pains to achieve balanced growth and carried out economic adjustments during the Sixth 5-Year Plan, the results toward the end of the period were less than totally satisfactory. An unsound price system has resulted in the underpricing of basic industrial products such as energy, transportation, and raw materials, and overpricing and excessive profits in processing industries. While state investments during the Sixth 5-Year Plan favored those industries given short shrift in the past, extra-budgetary funds have been steered by prices toward processing industries, thus exacerbating the imbalance in China's economic structure. The present economic setup shows that a colossal adjustment awaits China in the Seventh 5-Year Plan. Clearing the barriers in the path of economic growth has been put on the agenda.

What Reform Calls For In Price Reform

If China is to further its economic reform, it must vigorously develop a commodity market, perfect market mechanisms and regulate production according to market demands. Blocking all this, however, is an insurmountable barrier: To invigorate enterprises, market mechanisms must be introduced, but such mechanisms are made inoperable by unreasonable market prices which lead to unequal competition and distort the profit motives of enterprises.

To change this state of affairs and turn enterprises into relatively independent commodity producers, we must perfect the market system and indirect control, both of which require the rationalization of prices. For

this reason, price reform is a crucial issue in the first half of the Seventh 5-Year Plan.

Some Strategic Choices Facing China

To create a sound price system in the Seventh 7-Year Plan, China must make choices regarding the model of price system, the kinds of commodities to be affected as well as the sequence in which they will be affected. These choices will define its overall plan.

-- choosing a price model.

There has been much discussion but little agreement on the model of price system. First, the model should be consistent with that of the planned commodity economy. The latter requires controlled market prices. Second, in the new era of economic growth, production must be geared to needs; we must go after structural balance amid a dynamic environment. The model of planned prices has no place in this kind of environment, while the model of market prices will function well in it. Besides, the establishment of a new order in the Seventh 5-Year Plan requires a price system where market prices play a central role. Otherwise, we cannot even begin to talk about establishing a new system. Consequently, the model we should aim for is one of controlled market prices. Zhao Ziyang points out in his "report on the Seventh 5-Year Plan," "Through reform, we must gradually establish a system in which apart from the prices of a tiny minority of commodities and services which will be set by the state, state guidance or market regulation will determine the prices of most commodities and services." In other words, price control will prevail in the public sector, in monopolies, and in other industries where the market does not operate perfectly. In industries which are susceptible to market movements, have an extended supply cycle, and are essential to the functioning of the national economy, prices will be set through state guidance to spread out and iron out excessively sharp price fluctuations. As for those industries where the market operates perfectly, it will be the market that determines prices within a framework of macroeconomic regulation.

The Seventh 5-Year Plan is a transitional time when the new will replace the old. During the first half of the plan, therefore, planned and guiding prices will be the norms. Toward the latter half of the period, guiding prices and market prices will be the dominant models.

-- choosing commodities for price reform

During the Seventh 5-Year Plan, we should first reform the prices of means of production before tackling consumer goods, for these reasons: (1) To do so will be to meet an urgent demand of economic growth at the moment. We should reform as we adjust, increase the prices of means of production without delay, enable prices to increase supply and check demand, and effect balanced growth; (2) Adjusting the prices of means of production first will have a lesser impact on market prices. The prices of means of production are interrelated, and their adjustments may neutralize one another. Hence the effect on people's livelihood and public finance will be relatively insignificant. This

approach will run into less non-economic resistance and helps ensure a smoother passage for reform as a whole; and (3) The prices of means of production are basic prices. Sorting them out first will facilitate price reform overall.

During the first part of the Seventh 5-Year Plan, we should coordinate price reform with the adjustment of the industrial structure by curbing strong industries and promoting weak ones, hold the line on price increases for consumer goods, and reform the prices of means of production based on energy, transportation and raw materials. During the middle of the plan, we should work out reasonable procurement prices for agricultural products, lift price control on some agricultural products, and, depending on the situation at the time, resolve the problem of resale prices falling behind procurement prices. The last part of the Seventh 5-Year Plan should be devoted to coordinating consumer goods price reform with wage reform.

--choosing a method

A valuable lesson we learned from reform last year is to combine deregulation with adjustment. But circumstances differ from case to case, and we must deal with each case on its own merits. For some products, our policy should essentially be one of deregulation; for others, one of adjustment. Among the major criteria are the following: (1) the relevant price model. To regulate prices is to plan prices. If a product belongs to that group of industries under price control, we should work out a planned price through adjustment. If the price of a product is to be determined through market forces, we may first adjust and then deregulate, or do both simultaneously, depending on the circumstances; (2) kind of product. This is an important criterion in determining whether we should deregulate or adjust. We can only adjust, not deregulate, the prices of certain rare commodities, eg., perennial resources. In the case of monopolistic products, eg., petroleum and electricity, we can deregulate only their secondary list prices. What can be deregulated are highly competitive products with a short production cycle; (3) It is the market that decides whether we deregulate or adjust. The market supply-demand situation and the degree to which market mechanisms can operate unobstructed are critical. Theoretically we should deregulate the prices of certain products, but imperfect market mechanisms preclude such a move. Under these circumstances, we can only begin by adjusting and then deregulate. (4) Supply-demand elasticity is a crucial basis on which to decide whether one should deregulate or adjust. It is advisable to adjust the prices of products with little supply elasticity. Conversely, products with a high supply elasticity should have their prices deregulated.

--choosing a pace

Some people believe we should go slow on price reform in the Seventh 7-Year Plan to play safe. Others recommend a moderate pace, arguing that only by proceeding neither too fast nor too slowly will price reform succeed. Actually it is totally meaningless to discuss speed in the abstract. Instead, we should base our response by how we answer these specific questions: (1) Are we talking about means of production or consumer goods? In the case of the former, price adjustments are interrelated, may be absorbed by enterprises, and have only a limited impact on market prices. Hence we can afford to move quickly to adjust their prices. (2) What about timing? But for the explosion

of total demand and the collapse of macroeconomic control, price deregulation alone would not have led to the skyrocketing prices last year. We should decide the pace of deregulation or adjustment by the prevailing circumstances. (3) How well coordinated is price reform with other reforms? If price reform is part of a coherent reform program, it can be fast-paced without causing problems. When price reform goes it alone, even a minor move can lead to social unrest.

What Price Reform Should Be Coordinated With

Experience is the best teacher. Critics have systematically reviewed reforms in the Sixth 5-Year Plan this year and put forward many astoundingly novel suggestions. As far as price reform is concerned, they propose that it be coordinated with fiscal and wage reforms. In my opinion, price reform must be accompanied by four things, particularly next year.

-- adjustments in the industrial structure.

Prices serve a regulatory function and help rationalize the industrial structure. It follows that price reform should be accompanied by a clarification of our policy of industrial structure adjustment so that we will know what we are after. First we must unify the strategic choices regarding economic growth with our price strategy. We should deal with different industries and products differently. Limits should be imposed on thriving industries while those which have been neglected should be nurtured through deregulation or adjustment. Some industries should be allowed to grow at an accelerated pace to overtake others when circumstances so justify. Financial subsidies and prices must move in tandem to avoid any adverse effects. In addition, prices and taxes must relate to each other; as prices change, so must production tax rates.

-- perfecting macroeconomic control

The macroeconomy got out of hand in late 1984 and early 1985, causing immense difficulties for price reform. That was obvious to all. Is there an explosion of total demand? How strong is our indirect regulatory capacity? These externalities will decide whether or not price reform will succeed. If we are to effectively control demand during the Seventh 5-Year Plan, we must improve planning and make total control its focus. As planners, we should balance total supply with total demand so that the latter will grow appropriately within permitted limits. Needless to say, fiscal and monetary policies are important tools of macroeconomic control and regulation. We must balance our budget and come up with a small surplus. We must also revamp the tax system. Inflation must be avoided at all costs when price reform is under way.

-- enhancing society's ability to absorb price changes

Price reform can only go as far as the economy, enterprises, the social psychology, and citizens' pocketbooks let it.

To help the national economy absorb price changes, we must do everything possible to minimize the repercussions of sharp price fluctuations. We must move cautiously and prevent runaway inflation from damaging the economy.

To better enable enterprises to absorb price changes, we must first maintain a suitable rate of national economic growth and facilitate production. Second, we must exert certain external pressure on enterprises to make them aware there is a limit to their demand. Finally, we must bring about equal competition and improve economic management.

To reinforce the citizens' ability to cope with price changes, we should mainly coordinate the prices of consumer goods with wages so that the two keep pace with each other.

To reconcile society to price changes and achieve a "common understanding" with the public, we must use propaganda tools effectively, fully appreciate the long-term and complex nature of reform, tell the difficulties to the people honestly and explain to them clearly what we are striving for. We must never "arouse excessive expectations" or "keep the people in the dark."

--coordinating with market organization

Our experience in price reform so far proves that lifting price control does not amount to putting together a market. Hopefully what has come into existence is not a primitive market but a controlled one. We may approach market organization in the following ways:

(1) perfecting market supply-demand mechanisms. When the supply-demand equation fails to respond to prices effectively, the latter will not be able to play its regulatory role to the full. Hence the need to perfect the mechanism of interest restraint.

(2) clearing circulation channels. This should be carried out in accordance with the demands of commodity circulation. Channels may be short or long, but they must be free from fragmentation or blockages. We must ensure that commodities flow smoothly.

(3) stepping up information work. To make the market more sophisticated and further deregulate prices requires the state to establish an appropriate information system to guide production and business operations.

(4) ensuring an orderly market. Economic leverages should be used to bring about equal competition among enterprises. Administrative management should be strengthened. On the books now are a series of laws governing advertising, trademark, quality, and other aspects of industrial and commercial management. We must use a combination of economic, administrative and legal tools to ensure an orderly market.

Economic growth and structural reform during the Seventh 5-Year Plan require China to put together a sound price system as soon as possible without causing severe repercussions, which, in turn, demands that it plan comprehensively and make wise choices. Even more important, it must coordinate its moves closely and proceed steadily. Only then can it act strategically and achieve its goal.

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NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON RURAL NONAGRICULTURAL INDUSTRY

Beijing JINGJI YANJIU in Chinese No 8, 20 Aug 86 pp 9-24

[Economic research report by Industry and Enterprise Research Department of Institute of Development Research: "On the Development of Non-Agricultural Industry in Rural Areas--An Active Force in Promoting China's Transformation of the National Economic Structure"--passages within slantlines published in *italics*; passages within double slantlines published underscored]

[Text] 1. The progress of the rural economic structural reform in our country in the past few years has initially stimulated the active role of rural development in promoting the development of the national economy as a whole. In the two research reports (Research Group on China's Rural Development: "New Growth Period of National Economy and Rural Development" carried in JINGJI YANJIU Issue No 7, 1985, and "On the Transformation of the National Economic Structure--Macroeconomic Environment of Rural Development in the New State" carried in JINGJI YANJIU Issue No 5, 1986) that we have already published, we pointed out that from 1979 to 1984, the extraordinary growth of the cultivation farming in our country gave rise to a sharp increase in peasants' currency income, quickly expanded the turnover of our rural economy, vigorously changed the original layout of our national economy, and became a prominent new phenomenon in the economic operation of our country. At the same time, they also pointed out that as the rural responsibility system with remuneration linked with output was popularized and as the productive force was emancipated in an even more widespread manner, there had already been a historic change in the supply and demand relation in the market of agricultural products all over our country and a normal manifestation of the trend of the decline of the proportion of agriculture in our economy; therefore, a period of a great transformation of the structure of our national economy would come. With this background, the task of reforming the composition of our rural undertakings has finally been put on the order of the day for our economic development.

I. Position of Rural Non-Agricultural Industry in the Transformation of the National Economic Structure

2. Rural non-agricultural industry has already begun to develop vigorously in our country. By the end of 1985, the number of township and town enterprises throughout our country rose to 10.94 million. They employed 64.16 million people, accounting for 18 percent of the total number of able-bodied laborers in our areas, and yielded a gross social output value of 248.1 billion

yuan, accounting for 15.3 percent of the gross output value of our society and for 40 percent of the gross output value of our rural community. (Footnotes 1, 2) (The documents and materials cited in the context are listed in a list of footnotes at the end of this report.) After deduction of the portion of agricultural activities by our township and town enterprises, in 1985, the total income and number of employees in the non-agricultural industry throughout our country respectively rose by 344 and 92 percent over 1979, which meant an annual average growth rate of 28.21 and 11.54 percent, respectively. (Refer to Table 1) These growth rates were clearly much higher than the growth rates of income and employment in the agricultural sector in the same period.

Table 1. Growth Rates of Rural Non-Agricultural Industry (percent)

Undertaking	Income		Employment	
	Gross increase	Annual average	Gross increase	Annual average
1. Industry	284	25.1	72	9.5
2. Communications and transport	361	29.0	92	11.5
3. Construction	644	39.7	192	19.6
4. Commerce and service	841	45.3	140	15.7
5. Total	344	28.2	92	11.5

Sources of Data: Refer to footnotes 7, 8, 9, 1, and 2.

3. At present, rural non-agricultural industry is often criticized for its relatively low efficiency, but what would have been the gross efficiency of our national economy if the "rustic" non-agricultural industry in our rural areas had not developed?

Table 2 is a comparison of the per capita net output value in various sectors in our country. From the table, we can see that the per capita net output value in our agriculture is respectively 15 percent of that of our mining industry, 14-64 percent of that of our manufacturing industry, 17.8 percent of that of our initial infrastructure sector, and 37.1 percent of that of our service trade. This means that on average, the transfer of one laborer from the agricultural sector to non-agricultural sectors can increase 1,979.4 yuan of net output value. According to this calculation, the number of people employed in non-agricultural sectors rose by over 20 million in total in our country's rural areas. This was equivalent to an increase of 40 billion yuan of net output value, accounting for 11-12 percent of the increase in our national income in that period. From this we can see that the development of this non-agricultural sector first greatly heightened the gross efficiency of our national economy. Forbidding this transfer means a failure to achieve better efficiency.

Table 2. Per Capita Net Output Value of Various Sectors in Our Country in 1981 (Yuan)

Sectors	(a)	(d)	(e)
Agriculture	555	513	615
Mining	--	2,053	4,093
Food processing	3,853	4,325	951
Other light industries*	2,430	2,755	1,414
Other heavy industries**	2,200	3,130	2,386
Machine building industry		2,115	4,202
Primary infrastructure***	1,668	2,025	3,457
Service trade****	1,792	1,628	1,658
Total	985	1,050	1,207

Sources of data: (p 55 of Footnote 10)

In the table, (a) is the value in terms of the net output value of material products; (d) has taken into consideration the various covert value created by the service trade; and (3) is the value after readjustment of price errors.

* Textile, garment, timber, paper, and other manufacturing industries;

** Chemical, coal mining, oil products, mining of nonferrous metal ore, and metal products industries;

*** Construction, power, gas, water supply, and transport industries;

**** Commerce, education, public health undertaking, public administration, national defense, and other service trade, but not including the housing property sector.

4. As is expounded by the article "On the Transformation of National Economic Structure," the lack of coordination in the structure in our country requires a change in the characteristics in the flow of the economy and calls on paying greater attention to continuously tapping our internal economic potential. Starting from this strategic basic point, we should not ignore the following facts that are determined by our national conditions: On the one hand, the latent capacity of our market as a function of our total population is mainly in our rural areas. Without an increase in the income, consumption and savings of our peasants who account for 80 percent of our population and without an expansion of our rural market, it is impossible for us to put into full operation the various mechanisms for increasing the flow of our economy, even less is it possible for us to harmonize the relations between various structural parameters. On the other hand, at present, most of our country's labor resources are in our rural areas. This determines that our rural areas will be a main site for us to organize our labor resources and utilize them as a substitute for our financial resources, that they will also be a major site for transferring and spreading our country's existing amount of assets and that although we should rely on the economic functions of the state power in transforming differential income from land into social funds, the basis for the transformation, namely the changes in the power of ownership and possession, the transformation of land products into commodities, and the changes in productivity also mainly take place in our rural areas. It is precisely under the

above-mentioned specific background that we again realize the prolonged significance of the development in our rural areas for the overall situation of the transformation of the structure of our national economy.

5. The increase in our peasants' currency income has become a major pillar for the expansion of our domestic market. This has been an important economic phenomenon in the past few years. According to checked calculation, about two-thirds of the increase of 179.8 billion yuan in the total retail sales of social commodities from 1978-1984 was owing to the increase of sales to our peasants. In 1983, the purchasing power of our peasants accounted for 52.5 percent of that in the whole community.

So far, we do not have any statistics directly available to show the amount of currency income that our peasants earn from their non-agricultural undertakings. In 1979, the per capita wage income in the commune and brigade enterprises all over our country is 238.5 yuan. If the portion that those worked in these enterprises got through the distribution in their production teams was taken into account, the figure would be about 245 yuan. If this figure roughly reflected the year's currency income from non-agricultural industry in our rural areas, then the total amount of this income for 1979 had to be 5.82 billion yuan, accounting for 6.1 percent of the currency income of the rural production teams and commune members in that year. (p 17 of the book in footnote 4) According to the same method of calculation, the currency income from non-agricultural industry in our rural areas for 1984 was 28.83 billion yuan, accounting for 12.5 percent of the total currency income there. This proved that the development of non-agricultural industry has already yielded an impact on the structure of peasants' currency income.

In fact, it was not until 1984 when the trend of this change has become even clearer. For there has been a change in the conditions for the extraordinary increase in agricultural products. There has been a decline in the trend of increase in the cash income from sales of agricultural products, in particular grain and cotton, which was originally the major cause for the increase in peasants' cash income. According to a state survey of 66,000 samples of rural households by the State General Team of Rural Sampling Survey, in 1985, the peasants' cash income from their sales of agricultural and forestry products increased by 2.8 percent over the year before, but their non-agricultural income rose by 43.1 percent. In that year, 58.6 percent of the total per capita increase of cash income (amounting to 61.44 yuan) came from non-agricultural undertakings. (p 91 of footnote 5) Therefore, the fierce expansion of our domestic market in 1985 (the total retail sales of commodities in the society rose to 430.5 billion yuan, an increase of 27.5 percent or 17.2 percent after readjustment of inflation over the year before (Footnote 6)) was to some extent internally related to the development of rural non-agricultural industry.

6. We have pointed out that, as per capita national income rose relatively quickly in the past few years, an important change characteristic of a new stage has taken place in the composition of demand in our market of consumer goods. However, often our supply system has to adapt itself to the change slowly. Owing to the obstacles in our economic structure, the failure of our supply to meet the demand has become even more serious. This is conspicuously

shown in the contradiction in our market structure, namely, while tens of billions of yuan of money is laid idle because people cannot find suitable goods to buy, tens of billions of yuan of unmarketable commodities are stockpiled in our storerooms. Serious shortage and serious stockpile coexist.

This structural contradiction is a serious challenge. If we fail to handle it properly, it will delay the process of the development of our national economy into a new stage of growth and may even give rise to a certain extent to confusion and turbulence.

However, the cash purchasing power of our peasants provides a buffer for us. For the starting point of rural residents' consumption is relatively low and they need to buy commodities of relatively lower grades; therefore, it is easier to satisfy their demand by the existing supply system at home. According to an analysis of the data concerning the per capita consumption of major commodities, in 1984, the average consumption of 12 categories of food by our rural residents except for grain and salt was only 20-90 percent of that by urban residents; that of 26 categories of consumer goods of daily use by our rural residents with the exception of sweatshirts and pants and shoes entirely made of plastic, was only 17-74 percent of that by our urban residents; and that of 9 categories of consumer durable goods by our rural residents was only 5-65 percent of that by our urban residents. From 1982-1983, a large amount of goods that had been stockpiled for many years in our commercial stock were consumed mainly by the increased purchasing power of our peasants. If there had not been this economic force that functioned as a buffer, the high economic growth rate our country has achieved in the past few years would have been inconceivable and the structural contradiction in our market would have surely been even sharper.

7. An analysis from the supply-side point of view reveals that the transfer of rural labor to sectors of higher productivity also provides some new opportunity for substituting labor for other production factors and for the further exploitation of our production factors. From 1979-1984, an increase of 4,100 yuan of fixed assets in our country's township and town enterprises can provide 1.22 jobs and increase the gross output value by 10,000 yuan (Footnotes 7 and 8); while in the same period, the state-owned enterprises of the same categories had to acquire 7,460 yuan of additional fixed assets to increase their gross output value by 10,000 yuan and could only thus provide 0.4 jobs. (pp 306, 413 and 216 of Footnote 12) In other words, our rural enterprises use 0.82 laborers as a substitute for 3,360 yuan of fixed assets. According to this calculation, the increase of a total of 83,615,000,000 yuan of gross output value by the township and town enterprises all over our country from 1979 to 1984 meant providing 6,689,000 more job opportunities than our enterprises owned by the whole people would have done and substituting labor for 2.81 billion yuan of fixed assets. This has clearly been of great significance for the economic development of our country which has plenty labor but lacks funds.

8. The process of our peasants taking part in the non-agricultural sector of our national economy also means a process of spreading and transferring the existing amount of assets to our township and town enterprises. From

1978-1984, the cost value of fixed assets in the rural enterprises all over our country increased by 34.5 billion yuan. According to the estimate on the basis of some typical investigation data, 35-45 percent of this was the purchase of second-hand machinery and equipment, of which the total value was 12-15.5 billion yuan. According to our estimate, the written-down value of these fixed assets contributed over 20 percent of the increase in the gross income of our rural enterprises (which increased by 19.7 percent on an average each year) in that period.

9. The impetus of money was indispensable for both the large-scale employment of labor as a substitute for funds and the spreading and transference of urban existing assets to rural areas. The process of the emergence and development of our township and town enterprises has proved that it is possible to rely on the continual absorption of the productive force released by the structure of our rural undertakings itself for the continuous deepening of the transformation of the structure of our rural undertakings. Of the 33.2 billion yuan of new investment in the township and town enterprises all over our country from 1980 to 1983, 56.6 percent came from the internal accumulation of funds in these enterprises, 12.6 percent was raised by the enterprises themselves, and 30.8 percent was as loans from banks and credit cooperatives. Since 1984, there have been some changes in this situation. However, taking the period from 1979-1984 as a whole, the loans to township and town enterprises by our banks and credit cooperatives rose by 26.45 billion yuan, but in the same period, the bank deposits of these enterprises rose by 9.8 billion yuan and the bank deposits of their staff and workers rose by 18 billion yuan, the total increase being 27.8 billion yuan which exceeded the increase in loans. In the 6 years, the township and town enterprises paid a total of 26.28 billion yuan of tax in addition to providing funds for their expanded reproduction. This was 3.8-fold the 7 billion yuan of funds that the state finance allocated to help these enterprises. They delivered 30.8 billion yuan of profits to townships and towns and this was roughly equal to the total state investment in agricultural capital construction.

10. In short, the basic model for our township and town enterprises is to substitute the use of some cheap labor for some funds and then to expand the scope of this substitution through the impetus given by the money pooled on the basis of expanding their own accumulation. In this way, these enterprises utilize the existing amount of assets in the society by various indirect means and promote the transfer of the labor factor that originally is hidden in our agricultural sector to the sectors of higher productivity. Only a profound understanding of the characteristics of our country's national economy as a whole and the demand of its development at the current stage can urge us to fully confirm the development of non-agricultural industry in our country's rural areas.

11. The development of rural non-agricultural industry is of huge significance other than an economic one. For our peasants who have lived on their land generation after generation, developing non-agricultural industry first means that they have to learn the rules of the activities in a new sphere. In particular, after the non-agricultural industry breaks the original boundary of rural sideline undertakings, it requires those who are engaged in it (no

matter how thoroughly they were farmers before) to have and be adapted to new social relations with new minds, new field of vision, new values, and new ethics and behaviors. This is indeed a lesson that people must learn in modernizing China. The classrooms where this lesson is given are simple and crude, but this lesson is of inestimably great significance.

For our cities, the rise of non-agricultural industry in rural areas may to some extent give impetus to the reform in our country's economic structure. The reform in the system of our township and town enterprises will have greater impact than the implementation of the contracted responsibility system. Principally, it is technically not suitable for urban property to be assigned by equal responsibility contracts among the people as we do in assigning land. But from the very beginning, our township and town enterprises do not assign responsibility by such equal contracts. The various experiments of assigning responsibility for the management of the enterprises by contract, the corporation system, partnership, the system of sharing ownership, renting enterprises, and even selling enterprises to people have been carried out in these enterprises. The reality of the coexistence of various kinds of ownership in rural non-agricultural industry has had and will continue to have great impact on our urban system. As China has not upheld any perfect theoretical program beforehand in carrying out its reform, the impact of examples is in fact even greater. It is precisely in the industrial, construction, commercial, communications and service activities that are engaged by tens of millions of people who have entirely not relied on any all-round support by the state, that we can find a large amount of valuable information to answer the question of "what methods of operation and organization can replace the traditional socialist economic pattern?" This is a condition for experiment that neither the Soviet Union nor Eastern Europe is provided with; therefore, we Chinese reformers should particularly treasure it.

II. Layout and Changes in the Structure of Rural Non-Agricultural Industry

12. The practice in the past few years has proved that there has been a trend of quick changes and diversification in the development of rural non-agricultural industry.

The degree of the change in structure can be measured by the "value of structural change." ("Value of structural change" is an index that is used to show the degree of the change in structure. It is calculated as follows: First, we calculate the absolute difference between the structural ratio of the period concerned and that of the base period and then we add up all these differences. (p 38 of Footnote 11) We should define agricultural and non-agricultural industry--the two major sectors of rural gross social products (or gross income) as the first level of the structure of undertakings in our rural areas. According to a calculation based on the statistics available, from 1979 to 1984, the value of structural change for this level of undertaking in our country's rural areas was 46 percent; while the rural gross social products rose by 132 percent in the same period.

13. The industry, communications and transport, construction and commerce, and service trade in rural non-agricultural industry is defined as the second

level of rural structure of undertakings. The internal structure and change in rural non-agricultural industry are shown in Table 3:

Table 3. Changes in Structure of Rural Non-Agricultural Industry

Sector	Income from non-agricultural industry					
	Amount (million yuan)			Percentage		
	1979	1984	1985	1979	1984	1985
Industry	37,218	97,215	143,267	82.2	70.4	71.2
Communications and transport	2,299	8,603	10,612	5.1	6.2	5.3
Construction	3,499	17,654	26,065	7.7	12.8	13.0
Commerce and service trade	2,247	14,585	21,150	5.0	10.6	10.5
Total	45,263	138,057	201,094	100.0	100.0	100.0

Sector	Employment in non-agricultural industry					
	Number (hundreds of people)			Percentage		
	1979	1984	1985	1979	1984	1985
Industry	181,438	287,695	312,647	76.4	67.5	68.3
Communications and transport	11,689	24,137	22,529	4.9	5.7	4.9
Construction	29,845	77,128	87,368	12.6	18.1	19.1
Commerce and service trade	14,661	37,512	35,210	6.1	8.7	7.6
Total	237,633	426,472	457,754	100.0	100.0	100.0

Sources of data: (Footnotes 7, 8, 9, 1, 2).

Figures for 1984-1985 take into account the income and employment of the non-agricultural enterprises of various kinds at and below village level including those run by households independently or jointly.

In the 6 years, in the rural non-agricultural sector, the amount of income from industry rose by 280 percent, but its percentage dropped by 11 percent. Of the other three sectors, the amount of income in construction rose by 640 percent, that in commerce and service trade rose by 840 percent, and that in communications and transport rose by 360 percent; while their percentages, respectively, rose by 5.3, 5.5, and 0.2 percent. This quick growth of rural construction, commerce and service trade, and communications reflected the fact that these sectors are more closely geared to the demand related to the development of the commodity economy in our rural areas themselves.

The above changes in the structure of non-agricultural industry make it easier for peasants to find jobs in their native areas. An analysis of the value of the growth elasticity reveals that for each unit increase in rural non-agricultural income, there is 0.25 in the employment in rural industry, 0.26 unit of the increase in the employment in rural communications and transport undertaking, 0.3 unit increase in the employment in construction, and 0.17 unit of increase in the employment in commerce and service trade. The difference between the value of employment elasticity in various major sectors tends

to decrease. This shows that there is a strong motive force to employ more people in the development of the non-agricultural industry in our country's rural areas.

From 1979 to 1984, in terms of income, the value of structural change at the second level of rural undertakings was 22 percent, but in terms of employment, it was 16 percent. They were both lower than the respective figures for that at the first level. This is worth noting.

14. The structure of each section in rural non-agricultural industry is the third level of the structure of rural undertakings. As our sources of data are limited, we will focus on discussing the structure in the various sections in rural industry. (Refer to Table 4)

Table 4. Changes in the Structure of 15 Rural Industrial Sections From 1980 to 1985 (percentage)

Section	Output value structure			Employment structure		
	1980	1984	1985	1980	1984	1985
Total	100.00	100.00	100.00	100.00	100.00	100.00
Metallurgical	2.30	2.74	3.37	1.90	2.00	2.53
Electric power	0.60	0.41	0.35	0.90	0.50	0.47
Coal and coke	4.60	4.41	3.85	5.50	5.60	5.56
Petroleum	0.10	0.08	0.12	0.10	--	0.05
Chemical	8.40	8.59	8.43	5.50	6.60	6.40
Machine building	29.10	23.62	25.53	25.00	17.40	17.32
Building materials	19.60	20.89	18.89	27.20	28.10	29.85
Forest industry	2.90	2.25	2.95	3.20	2.40	3.48
Food	7.10	8.52	7.87	5.40	8.40	7.80
Textile	8.70	10.57	12.51	6.10	7.00	7.65
Sewing	3.90	4.03	3.67	4.10	4.50	4.68
Leather	1.70	1.31	1.59	1.50	1.40	1.73
Paper	1.40	1.40	2.39	1.50	1.20	2.08
Industry of cultural and educational goods	2.20	2.85	3.04	3.00	4.90	4.52
Other industries	7.40	8.33	5.44	9.10	10.00	5.88

Sources of data: (Footnotes 7, 8, and 2)

In terms of the percentage in total output value, in 1985, rural machine building industry ranked first, accounting for over one-fourth of the total output value; next was building materials industry, which accounted for 18.9 percent,

and the textile industry, which accounted for 12.5 percent. All other sections accounted for less than 10 percent each. The ranking in terms of the structure of employment was first for the building materials industry and second for the machine building industry. They respectively accounted for 29.8 and 17.3 percent of the total and none of the other sections accounted for more than 10 percent. In totality, this order of ranking shows that the structure of output value in our rural industry is quite different from that of employment. This seems to show that in the process of the changes in the structure, there are different rules for the growth of output value and employment in different sections. Roughly, the difference between the percentage of employment in the rural industry is smaller than that between the percentage of output value there.

From Table 4 we can see that the percentage of output value for electric power, coal and coke, machine building, building materials, sewing, leather, and "other industries" dropped in the past few years; while that for metallurgical, forestry, food, textile, and paper industries, and the manufacturing industry for cultural and educational goods rose. The percentage of employment for electric power, machine building, and "other industries" dropped, that for petroleum industry remained unchanged, but that for all others rose. Our calculation shows that from 1979 to 1980 the value of structural change in rural undertakings at the third level was 16.5 percent in terms of output value and 22.7 percent in terms of employment.

15. One of the prominent characteristics in the structure of non-agricultural industry in our country's rural areas is that most of the enterprises are small in scale. In 1979, the average number of employees in all our rural non-agricultural enterprises was 22.93, and in 1985, it rose to 29. If the enterprises run by households independently and jointly and other enterprises were taken into the calculation, then the average number for 1984 was only 10.61 and that for 1985 was only 12.74. It seems that operation on a small scale is very much suited to the conditions of surrounding for the formation of wealth in our rural areas now. This provides a condition for the prosperous development of our township and town enterprises.

However, if we observe the sector separately, line of trade by line of trade, we will see that the average scale in some lines of trade is larger. For example, in 1985, the average number of employees in a rural construction enterprise was 75.6; while that in a rural industrial enterprise was 32.56, of which that of a textile enterprise was 56.7 and that of a metallurgical enterprise was 53.8. From 1984 to 1985, owing to the impact of the tightened macroeconomic control, the average number of employees in our rural industrial enterprises rose from 28.3 to 32.6, and the value of change in the structure of average scale in those 15 sections reached 88.5 percent. This showed that the scale of our rural non-agricultural enterprises can, to a certain extent, respond to the change in environment.

16. In short, the reforms in all three major levels of the structure of rural non-agricultural industry has already been started. This was a fine beginning of far-reaching significance for the development of China's rural areas. At present, what we should look squarely at is that the degree of the change in

the structure of output at different levels is not the same and there is a trend of decline level by level downward: The value of structural change at the first level was 46 percent, that at the second level was 22 percent, and that at the third level was 17.3 percent.

Our further analysis of the statistics reveals that there is a certain relationship between the value of structural change and the rate of increase of the total amount. We have made a correlation analysis of the value of structural changes at the three levels in our rural areas and the corresponding rate of increase of the total amount, in other words, an analysis of the correlation between the rates of increase for rural gross social products, rural non-agricultural output value and rural industrial output value on the basis of the sectional data of 26 provinces, municipalities, and regions (not including Xizang, Shanghai, or Tianjin) for 1979-1984. It reveals that the higher the value of structural change, the greater the correlation coefficient between it and the rate of increase in total amount. (Refer to Table 5) Therefore, the level by level decline in the value of rural structural change enables us to directly draw the conclusion that the correlation with the total economic indexes at the three levels weakens level by level, and that there is no clear correlation at the third level.

Table 5. Correlations Between the Value of Rural Structural Change and the Increase in Total Amount

	N	R ²	F
Correlation between the value of structural change at the first level and the change in rural gross social products	26	0.23	7.34
Correlation between the value of structural change at the second level and the change in gross non-agricultural income	26	0.05	1.22
Correlation between the value of structural change at the third level and the increase in rural industrial output value	26	0.03	0.71

N = number of samples; R² = correlation coefficient measured; F = value of F test.

The above-mentioned facts show that so far the development of our country's rural non-agricultural industry has only entered at a relatively initial level. If we do not promptly start a structural reform at an even deeper level, then the structural productive forces that we will emancipate will be very much limited. According to the general law that governs division of labor, it is impossible for any kind of industry to develop infinitely without being further developed into sections. The distribution of the non-agricultural resources among the various sectors of industry, communications, construction, and commerce in our rural areas will one day become an important factor in the development of our non-agricultural industry. Similarly, one day the internal

substructure of our industry, construction, and so on will also have a decisive impact on the further development of our industry, communications, construction, and commerce.

17. It may be useful to compare with the changes in the structure of rural non-agricultural industry in some other countries. In the 1970's, the proportion of rural non-agricultural employment in some major Asian countries and areas was between 25 and 45 percent. (pp 3-4 of Footnote 13) The percentage for India was 24 percent, that for South Korea was 25 percent, that for Indonesia was 27.7 percent, that for Malaysia was 37 percent, and that for the Philippines was 40 percent. (pp 3-4, 14, 360 of Footnote 13) All these figures did not take into account the seasonal and temporary non-agricultural activities. At least, these countries' proportion of non-agricultural employment at present is 2-18 percent higher than that in our country's rural areas. At the same time, the data of surveys among the rural households in various countries show that non-agricultural income accounts for 25-70 percent of their total income. (p 6 of Footnote 13) This was much higher than the 18.2 percent of net non-agricultural income in the total income of our country's rural households. (p 571 of Footnote 12) Of course, this is not a satisfactory situation. A direct and to some extent major reason for this is that we have failed to fully tap the productive potential deeper in the economic structure of our country's rural areas. For example, except for the manufacturing industry, the existing non-agricultural sectors in China's rural areas are all not so developed as those in other developing countries in Asia. Among them, the construction, communications and transport, and commerce, and other tertiary industries are, respectively, 5.5 and 30 percent lower than those in those countries. (p 37 Footnote 13)

What is very challenging is that the deeper the level of the structural reform, the greater is it related to the change in the structure of our national economy. This is precisely a key link for the further development of our country's rural non-agricultural industry.

III. Similarity of the Degree of Participation and Structure of Our Rural Enterprises

18. Once rural non-agricultural industry becomes independent of agriculture, naturally, it will participate in the activities of the various departments of our national economy. In 1984, our rural non-agricultural output value was 185.24 billion yuan, accounting for 19 percent of the gross non-agricultural output value of the whole society. (Footnote 1, and pp 241 and 20 of Footnote 2); while there were 42,647,000 people employed in the rural non-agricultural industry, accounting for 22 percent of the non-agricultural work force in the whole society (pp 213-214 of Footnote 12).

Viewed section by section, the degree of participation of our rural non-agricultural enterprises (not including the various kinds of non-agricultural enterprises below the village level because no classified statistical data about them are available) in the 17 major industrial sections is shown in Figure 1.

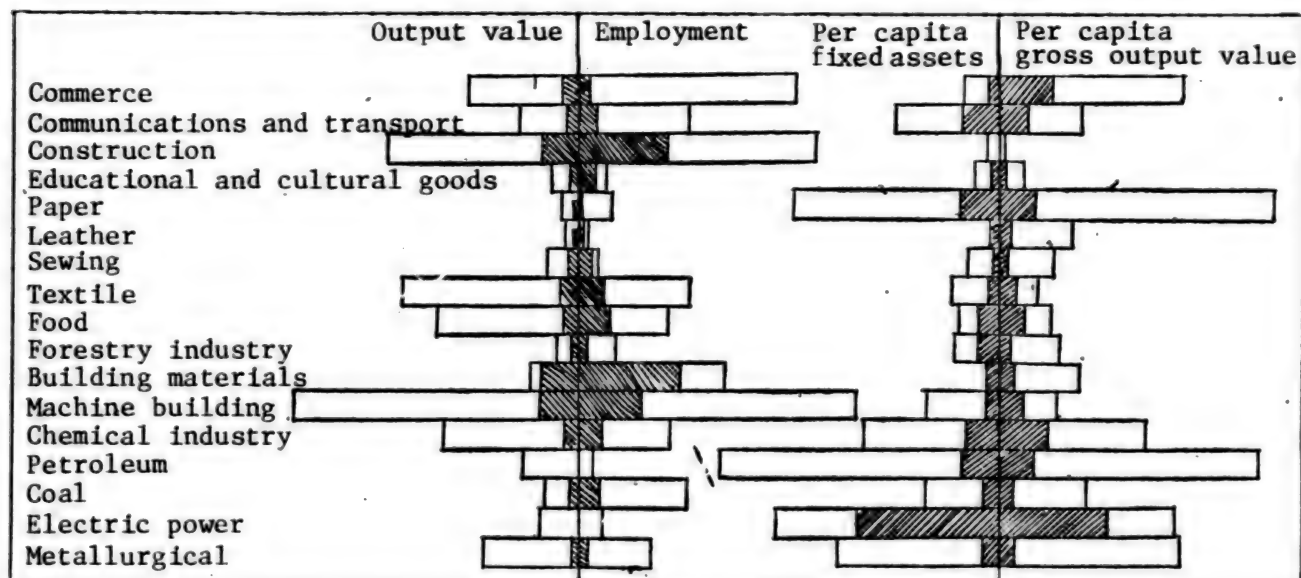


Figure 1. Degree of Participation of Rural Enterprises' in 17 Major Non-Agricultural Sections in 1984

Figure 2. Comparison of Rate of Equipment Between These Sections

Sources of data: (pp 23, 315-316, Footnote 12; pp 10-147 Footnote 8)

 The whole society
 Rural enterprises

Judging by the composition of output value, except for the section of building materials industry (accounting for 74 percent of the total output value of our building materials industry) the degree of participation by our rural enterprises in other sections is relatively low. It is nearly 25 percent for 3 of the sections (coal, sewing, and leather industries), and is below one-fifth for the other 13 industries. Judging by the employment composition, the degree of participation of our rural enterprises is clearly higher. That of sewing industry is 82 percent, that of building materials industry is 69 percent, that of cultural and educational goods manufacturing industry is 56 percent, that of the construction industry is 46 percent, that of the six industries (chemical, machine building, forestry, food, textile, and paper) is between 20 and 30 percent, and that of other industries is less than one-fifth.

19. Our intuitive impression is that the main difficulty for our rural areas to develop their non-agricultural industry is the lack of funds. Therefore, people generally think that in the sector with a low rate of equipment (in other words, low value of assets per each worker) the degree of participation should be a little higher and vice versa. However, our statistics do not entirely support this view (refer to Figure 2). For example, our construction industry has the lowest per capita fixed assets among all the rural enterprises (in other words the lowest per capita value of fixed assets) but its degree of participation is not the highest. Its degree of participation in terms of

output value and employment, respectively, ranks sixth and fifth among the 17 sectors. Reversely, the section of rural coal mines which has the highest degree of participation in terms of output value (the degree of participation has reached 23 percent) does not have lowest rate of equipment, but ranks seventh in this respect. Despite the very low relative rate of equipment in the rural enterprises in the eight industries including metallurgical, electric power, petroleum, forestry, food, textile, leather, and communications and transport industries (compared with the rate of equipment in the whole society or in the enterprises owned by the whole people), their degree of participation in terms of output value and employment is even lower. Only in four sections, namely, the building materials, sewing, construction, and commercial sections, the degree of participation in terms of output value and employment is actually higher than the relative rate of equipment. In totality, the correlation between the per capita relative rate of equipment and value of fixed assets and the degree of participation in terms of employment is very low (the coefficient R square is equal to 0.000064) and so is the correlation between it and the degree of participation in terms of output value (R square is equal to 0.0128).

20. In other words, rural enterprises do not expand the degree of their participation entirely in accordance with the principle of substituting labor for funds. The degree of participation for each sector of rural undertakings is mainly restricted by the macroeconomic environment around that sector. If the signal of market demand is stronger and the rate of income is higher or if the obstacles to the entry of the sector such as the restriction of the supply of funds, the obstacle related to technology and human obstacles are to some extent reduced, then the degree of participation will be higher and vice versa.

Now, we are going to give an outline of the present situation of some typical rural non-agricultural undertakings by the application of this view and to make an initial estimate of their development prospects.

21. /Mining./ Our country's economy is still far from having entered the stage of development at which it can reduce the intensity of its consumption of mineral materials. As our economy grows, our country's consumption of mineral resources will continue to intensify. Our country has all kinds of mineral products and diverse categories of mineral deposits, which spread everywhere. Most of our mineral ore is not of high grade. All these determine that it is appropriate to use the labor-intensive mining method. However, by 1982, only 0.85 percent of our laborers were engaged in the mining industry. (p 207 of Footnote 12) This was two-thirds below the mining employment percentage (2.5 percent) in the "model of big country" which has a per capita income of \$300. (Footnote 19)

In our mining industry, the mining of mineral energy in particular the exploitation of coal resources is of great significance. In 1984, the coal mine owned by the whole people needed 7,042.2 yuan of fixed assets for each of its employees, but a township and town coal mine only needed 20-25 percent of fixed assets for each employee. Therefore a large amount of rural labor could enter this sector. In addition, since 1982, the obstacles to peasants taking part in

exploiting coal have been removed gradually. As a result, the output value of township and town coal mines has risen by 17.5 percent a year and the number of employees there has risen by 13.8 percent a year on average. In 1984, rural coal mines turned out one-fourth of the total coal yielded by our country. However, in view of the relatively low ranking (eighth) of the rate of equipment of our rural coal mines, their degree of participation in terms of both output value and employment is still small. This is mainly because they are still far from being fully developed owing to the restriction related to the division of the ownership of resources and limited technology and transport facilities.

22. /Communications and Transport./ In 1984, the output value of our country's communications and transport industry only accounted for 3.8 percent of the gross social output value and its income only accounted for 3.3 percent of the national income. Judging by international experience, this percentage of our transport industry is not high and there is a conspicuous weak point--our road transport. The length of highways opens to traffic in our whole country, the road density in our country and the percentage of road transport in the total volume of our transport and other major indexes are substantially lower than that of the various big countries. This is an inevitable consequence of our previous economic structure and economic system.

The structural reform of our country's communications and transport industry has provided our peasants with a historic opportunity to enter this industry. From 1979 to 1985, the income of rural communications and transport industry rose by 29 percent a year on the average and the employment in this industry rose by 11.6 percent a year on the average. What rose most sharply was the total transport capacity of our roads. Two-thirds of our total mileage of highways is below the normal grade. At the same time, from 1979 to 1984, the number of automobiles rose by 11.2 percent all over our country, that of large- and medium-sized tractors rose by 10.4 percent, but the mileage of highways open to traffic rose only by 1.1 percent a year. China must build roads on a large scale. According to the calculation based on the data from a typical investigation, if it builds 60,000 km of road a year, it will employ 14 million laborers who will directly take part in the work of building the road. This can be regarded as a high employment elasticity.

23. /Construction Industry./ The high growth rate of the construction industry in the past few years (13.4 percent per annum) constitutes one of the major causes for our country to switch onto a new stage of economic growth. At present, the checked proportion of our construction industry in our gross social products is 10-11 percent and this industry yields 8-9 percent of our national income. If the output value of the other industries that directly or indirectly serve the final products of our construction industry is added to it, the proportion will be 25 percent.

In 1984, the relative rate of assets and equipment in our rural construction industrial enterprises ranked 8th in all 17 sections, but its degree of participation in terms of output value and employment, respectively ranked sixth and fifth. This shows that there is a trend of the degree of participation in terms of output value and employment growing relatively quicker than the

rate of funds and equipment in our rural construction industry. Perhaps, the expansion of the peasants' demand for housing and the increase of the demand for capital construction resulting from the quick growth of our national economy in the past 2 years is one of the reasons why the rural construction industry has developed quicker than other industries. Another possible reason is that technologically the construction industry itself is more suited to large-scale participation of rural laborers.

From 1979 to 1984, the number of people employed in the township and town construction enterprises all over our country rose 19.6 percent a year on the average and their income rose 39.8 percent a year. Now, there have already been 8,737,000 workers in our township and town construction enterprises, accounting for over 50 percent of the work force of the whole construction industry. If those who are employed in the building materials industry are also taken into account, the work force of rural construction undertaking will have 15.91 million people. It is expected that in the future, the employment growth rate in our construction industry will be 4 to 5.4 percent. This also matches with international experience.

24. /Machine Building Industry./ This is the largest manufacturing industry in our country. It concentratively reflects the success and serious problems of our previous development strategy. at the same time, it has a decisive impact on our future structural reform. From 1952 to 1984, the output value of our country's machine building industry rose by 14.9 percent a year on the average. At present, it yields 25 percent of our gross industrial output value and 24.7 percent of our net industrial output value.

At present the ratio of intermediate demand to final demand in the gross output value of our country's machine building industry is 1.54, quite a high ratio, but the ratio for the "standard structure" with \$300 per capita income is 0.6. The output value of livelihood machine products in our country accounts for less than 10 percent of that of our machine building industry. In the sphere of the production of machinery for production, the number of machine tools produced for its own use ranks among the foremost in the world, being two-fifths of that in the United States, two-thirds of that in Japan, and one-half of that in the Soviet Union. However, at the same time, our output of trucks is only one thirty-second that of Japan, one-seventeenth that of the United States, and one-eighth that of the Soviet Union. There is a shortage of some machine building products to meet the demand while there is a serious surplus of our huge machine processing capacity. This is the most outstanding contradiction in the structure of our machine building industry.

As the jobs of processing in the machine building industry is easily divisible and as the work is relatively less continuous in nature, therefore, this is the easiest section of industry for people to enter. According to our calculation, the employment elasticity of our country's machine building industry is 0.44 in the past few years. According to this trend of development by the end of this century, the number of staff and workers in our country's machine building industry will be 60 million, but the annual rate of increase in labor productivity will only be 5 percent. From this we can see that, if we do not radically transform the organizational pattern of our machine building industry,

the high employment in our machine building industry may give rise to a chain reaction of low efficiency. This will not only excessively consume our financial, material, and energy resources, but may also hinder the process of the technological transformation of our entire national economy.

Therefore, inevitably, we should weaken the low-level excessive competition in our machine building industry. For this we should not hesitate to lower the employment elasticity of our machine building industry. This may have some unfavorable impact on our township and town machine building industry. However, the technological divisibility of the machine building industry and the great shortage of funds in the process of the large-scale reorganization of our country's machine building industry will bring some new hope for our township and town industry. According to our general forecast, the growth elasticity of our country's machine building industry will continue to be larger than one and the annual growth rate will still be maintained at 8 to 9 percent.

If the small machine processing enterprises formed by the population of relatively low income in China can play the role like that now played by those in Japan and India, then within this century the machine building industry run by the rural population that flows into this industry will yield a half of the total output value of this industry in our country and employ 60-70 percent of the labor force in it. (Footnote 15)

25. /Food Industry./ Although the food industry ranks third among all the sections of industry in our country, it is fairly backward. The output value of the food industry is only 30 percent the output value of our agriculture (after deducting the output value of the industry run by production teams); and less than 40 percent of the food consumed by our people has been processed by our food industry. In our food industry, the output value of the primary processing of grain, oil, salt, and sugar and the production of alcoholic, tobacco, and other products that people become addicted to, account for 75 percent of that of the whole food industry. Only 25 percent of the work is intensive and deep processing. These indexes are all backward compared with other countries of the same income group. An analysis of the prospects of the demand for this industry's products reveals that except for grain all major food is highly income elastic. According to international data, at the period when the per capita GNP is \$600-900 (at its 1981 value), the income elasticity of food, drinks, and cigarettes can still be 1.72 and this elasticity will not drop substantially until the medium- and high-income periods come. Therefore, undoubtedly, the food industry will be one of the major production sectors that will continue to develop quicker than the increase in income.

At present, the rate of fixed assets and equipment in our state-owned food industry (7,962 yuan per capita) is lower than the average of 13 industrial sections, but the total amount of profit delivery and tax payments of the whole industry and the per laborer labor productivity in this industry ranks second among all the industrial sections. Therefore, it is very attractive for township and town enterprises.

However, the high efficiency in our food industry is only because of the contribution of a small number of lines of trade in it which earn high profits and pay high taxes. For example, in 1983, the profit delivery and taxes contributed by the lines of trade such as cigarettes, alcohol, salt, and sugar, accounted for 82 percent of the total profit delivery and tax payments of our food industry. Therefore, our rural food industry is basically characterized by the out of control growth of cigarette, alcohol, and sugar factories, and the underdevelopment of other lines of the food industry. Although the per capita amount of fixed assets (3,500 yuan) in our township and town food industry is only 44 percent of that in our state-owned food industry, and although this theoretically provides a great possibility for substituting labor for funds, our township and town food industry only yields 10 percent of the gross output value of the food industry of the whole nation, a very low percentage.

26. /Textile Industry./ Generally speaking, the world textile industry is declining from its position as the industry that lays the foundation of industrial civilization and is becoming a "sunset industry." From 1952 to 1983, there was also a trend of decline in the output value and employment of our textile industry as a percentage of our whole industry. However, our textile industry remains the second largest industry in our country. An analysis of its prospects, taking into consideration diverse factors including domestic demand and exports, reveals that both the income and employment elasticity of our country's textile industry will be lower than one. This means that from the point of view of the total amount of output value, our textile industry will no longer have substantial impact on the reform of the production structure of our national economy.

However, the internal structure and the product mix of our textile industry will substantially change. At present the product mix of our textile industry fails to meet market demand and this has already become a serious problem.

Over the past few years, our rural textile industry has grown at an excessively high rate. From 1979 to 1984, the output value of the textile industry run by townships rose by 40.6 percent per annum and its number of employees rose by 23 percent per annum. Roughly, when the output value of the textile industry of the whole nation grows by 1 percent, that of the textile industry run by townships grows by 3.12 percent. At present, our township and town textile industry yields only 9 percent of that of the textile industry of the whole nation and employs only 22 percent of the total work force. Nevertheless, the degree of participation of our township and town textile industry is only higher than food, metallurgical, electric power, and petroleum industries. As the labor and material costs in large-scale textile industry have risen sharply in the past few years, it is no longer profitable to continue to produce many textile goods in large cities. If we first carry out a reform in the labor system of our textile industrial enterprises and orderly transfer more traditional textile industry to our rural areas and at the same time, if we allow and organize the township and town textile industrial enterprises provided with necessary conditions to take part in the processing of some textile goods of high grade, we will help the development of intensive operation in our textile industry.

27. The situation in all these typical sections shows that our rural non-agricultural industry has not created nor is it possible for it to create a foundation for its own structural change in isolation from the overall environment of our national economy. This can explain the question of why, despite the great difference between the initial conditions for the establishment of our rural non-agricultural enterprises and those for the large-scale industry in our cities, //the structure of our rural non-agricultural industry is amazingly similar to the non-agricultural structure of our national economy.// In 1984, the similarity coefficient ("similarity coefficient" can be expressed by the formula: $S_{ij} = (\sum_n X_{in} X_{jn}) / (\sum_n X_{in}^2 \sum_n X_{jn}^2)^{1/2}$. In this formula X_{in} and X_{jn} are the percentage of Structure No i and Structure No j in sector No n. The value of the coefficient ranges between 0 and 1. If the value of the coefficient is 1, the two kinds of structure are identical, if it is 0, there is no similarity between the two kinds of structure. (p 90 of the book of Footnote 14)) between the output value mix of our rural industry, communications and transport, construction, and tertiary industry, and that of the same four major industries of the state-owned and urban collective sectors in 1984 was 0.988, a very high value; and that between the output value mix of the 14 sections in rural industry and the output value mix of the 14 sections of the industry of the whole country was also high, being 0.721, the 8 heavy industrial sections of the 2 sectors have a similarity of 0.793 while the 6 light industrial sections of the two sectors have a similarity of 0.929. Because of this high similarity in structure, the criticism that the structure of undertakings in our national economy is very poor in harmony is also true for the structure of our rural non-agricultural industry. Moreover, as our rural non-agricultural economy takes part in the operation of our national economy, it to some extent aggravates the contradiction between supply and demand in the transition period.

At present, the problem that we are to the least extent allowed to evade is the emergence of some portent of "excessive participation" when the transfer of our peasants into non-agricultural sector is far from being adequate. This is mainly shown as follows: 1) The methods of exploitation characterized by low efficiency and high consumption are widely adopted in the mining industry and the malpractice of excessively undermining our resources and the trend of external waste are rising. 2) In the manufacturing industry, there is not only an excessive competition between buyers of input goods in short supply (such as the competition in heavy manufacturing industry), but also a widespread excessive marketing competition for low-level products (such as that in our light manufacturing industry). As rural processing industry develops in a widespread manner in various areas, the excessive competition is increasingly greatly spreading inside our township and town industrial sector. 3) The growth of the capacity of the communications and transport industry relatively exceeds our road capacity. 4) The number of the teams in the construction industry that can formally undertake the construction projects of accepted standard is too small. According to our estimate, they only account for 8 to 10 percent of our rural construction teams. 5) In the commerce and service trade, on the one hand, there is a saturation of those who are engaged in commerce in small towns and cities, in particular, there are too many people engaged in the sales of commodities with a high profit rate (such

as garments and electric appliances); but on the other hand, the development of comprehensive commerce and other service trades is inadequate and the transfer of low-income population to the commercial sector has particularly failed to play a substantial role in lowering the commercial circulation expense in our large cities.

All the above has caused the ratio of net output value to gross output value in our township and town non-agricultural enterprises to remain at a relatively low level. In 1984, the ratio of net to gross output value in our rural industry was between 0.24 (for sewing industry) and 0.56 (for the coal industry). This was very close to that in our enterprises owned by the whole people and in our collective enterprises where the rate of equipment was higher (the ratios of the former to those of the latter sector are 0.8-1.20). This shows that in spite of the low organic composition of the input in our rural enterprises, because of various other factors of low economic results, no corresponding high ratio of net to gross output value is obtained.

29. From the above analysis, we can draw the following conclusion: The quick development of township and town enterprises in our country in the past few years has shown the necessity and possibility of the large-scale transfer of our peasants to non-agricultural industry, but judging by the changes that have already taken place, the structural reform has only just begun. The structural contradiction between "insufficiency" and "surplus" in the process of our peasants' transfer to the non-agricultural industry shows that while our country wants to transfer a large number of laboring population to the non-agricultural sector and has a strong urge to do that, the spheres that are easy to enter for our peasants are not wide. If we fail to transform the overall environment of our national economy and if we fail to continue to reform the system and organization of our non-agricultural industry to help peasants enter this industry, then the continuously increasing rural population that has left the land will only be able to stay in the spheres of industry that are easy for them to enter. In this increasingly narrower sphere, there will be even more fierce competition for natural resources, input goods and market of products, which will aggravate the excessive and low-grade competition. This will be detrimental to the further development of rural non-agricultural industry. As the all-round reform of the structure of our national economy is put on the order of the day, there will also be profound changes in our township and town enterprises. In order to smoothly finish this transformation, we must free ourselves from the limitation of the simple and opposite thinking methods that are focused on the question of "whether the development of township and town enterprises is very satisfactory or very bad" and we should first look squarely at the series of new problems raised by the development of our country's non-agricultural industry and find new methods to solve them in the changing overall environment.

IV. Several Problems That Should Be Solved in Deepening the Reform of the Structure of Undertakings in Our Rural Areas

/The first problem is how we are to develop even more diversified patterns for peasants to transfer to non-agricultural industry./

30. Owing to the historical conditions such as the separation between our urban and rural areas, since the 1960's, the major pattern for the peasants in our country to enter non-agricultural sector has been the establishment of the enterprises owned by the communes and brigades to exploit and utilize various kinds of local non-agricultural resources within the scope of the communes and brigades concerned. This uniform pattern of entry is an important reason for the emergence of "excessive and low-grade competition." As the reform of the implementation of the contract responsibility system with remuneration linked with output deepens, the patterns for peasants' entry of the non-agricultural sector has also changed. What is most worth noting is that some peasant enterprises have already begun to break the narrow boundary of their villages and townships and strived to optimize their investment orientation, internal and external economy of scale and layout of enterprises in an even greater scope.

Major new patterns of entry are: 1) the diverse forms of combined enterprises with joint funds, technology or labor between peasants of different areas beyond the boundary of their villages and townships; 2) various kinds of township and town enterprises with independent ownership have, to a various extent, taken part in the lateral cooperation with large- and medium-sized state-owned enterprises and other urban enterprises as the cores and thus become relatively stable specialized contractors in producing parts and components or in carrying out certain production processes; and 3) through state-owned enterprises, our government has established frameworks of enterprises of development nature (in other words, it assigns the leaders and technological and management cadres of the enterprises) and then recruits peasants as contract workers to form actual entities of enterprises.

At present, we have not yet been entirely clear about the distribution of the various new patterns in various industries and areas. Judging by the existing survey data, we can already see that the new patterns of entry only constitute a relatively small proportion of the township and town enterprises in the whole country and are very unstable. However, we can also see that after all these new patterns of entry that are different from the pattern of "establishing and running enterprises by the village and township itself," has pointed out a possible orientation of development that can fully exploit our country's non-agricultural economic resources under the condition of boundless supply of labor and that can at the same time avoid low-grade excessive competition.

31. The key to renewing the patterns of entry is the way to carry out a rational division of labor between rural non-agricultural industry and the existing urban industrial system. The previous guiding principles (from the principle of "utilizing three local resources" and that of focusing on processing agricultural and sideline products") principally embody the idea of //carrying out a division of labor among urban and rural large, medium-sized and small enterprises in terms of products.// However, in the practice in the past few years, some new trends have emerged to begin to embody the new principle of conducting division of labor //in terms of the processing stages of products.// In many industries, when products are at different stages of processing, the technology, funds, and management required and the external economic requirements differ greatly. If we more purposefully deal with the

difference in these requirements in the process of division of labor, then it will be possible for us to provide more opportunities for low-income population to enter the non-agricultural industry than we can by indiscriminately adopting the method of division of labor in terms of products and also to achieve better economic results in this industry as a whole. For example, we have mentioned above that it is not only a must but also a very urgent task for us to reduce the low-grade excessive competition in our machine-building industry. However, the intensification of the product mix of our machine-building industry will usually cause our links of processing and number of assembly processes to increase and thus further heighten the technological divisibility of that industry. In the well-known "No 2 Automobile" Enterprise Group, in addition to its 148 factories of combined operation, there are also over 1,000 township and town machine building enterprises that cooperate with the 148 factories. Most of these enterprises are specialized in producing certain spacers, nuts or components for automobiles. The "Standard" Sewing Machine Group in Shaanxi and the "Bailan Brand" Washing Machine Group in Beijing also follow this principle. They all prove that while resolutely closing and suspending the production of a number of backward small and all-inclusive factories that produce assembled machines, we should reorganize the machine building industry in order to specialize the production. The characteristics of our township and town machine building enterprises such as the small scale, widespread layout, and low labor costs will continue to be the favorable conditions for peasants to more greatly taking part in machine building industry through participating in one or more stages of process.

32. China particularly needs to study and utilize the technological and organizational trend in modern industry of contracting production, a trend that is rising again now. Contracting production means that large industrial companies rely on small labor-intensive enterprises for the manufacture of parts and components and for the carrying out of various kinds of processing and then produce "their own" products. In 1971, 57.9 percent of all the small manufacturing enterprises in Japan were contractors, whose output accounted for 17 percent of the gross output of large manufacturing enterprises. Since 1956, the Indian Government has adopted measures to ensure that small enterprises can become contractors for large factories. By 1973, the number of registered small enterprises totaled 400,000 and their output value accounted for 50 percent of the gross industrial output value. In Poland, particularly in its central and eastern areas where there is surplus labor, the government hopes that it will industrialize these areas by means of establishing long-term contracting relations between large and small enterprises. The Chilean Government has even compelled people to contract production--it has promulgated laws stipulating that the production of certain products must be contracted in order to solve employment problems and the problem of social inequality in income. (Footnote 15) As small industrial enterprises incur less cost in providing a job opportunity and as their per investment output is higher, when small and large enterprises cooperate with each other organically, they will offset each other's technological and management weak points.

The new principle of division of labor provides a new hope for coordinating the heightening of the additional value and the expansion of employment in our manufacturing industry. In contrast, the outstanding problem related to the structure of scale of our country's industrial enterprises is not the excessive large number of small enterprises (p 40 of Footnote 16) but the wrong principle of division of labor between large and medium-sized enterprises and small enterprises. Over the past few years we have gained experience in carrying out division of labor between urban large and medium-sized enterprises and rural small enterprises through lateral cooperation in contracting production processes. This provides a clue to the basic way to solve this problem.

/The second problem is to deepen the reform in the property relationships in our township and town enterprises./

33. We should change the principle on the system for peasants to take part in social division of labor to expand the efficient transfer to the non-agricultural sector. This, in fact, requires us to heighten the degree of socialization for the transfer, movement, and reorganization of the various economic factors in our rural areas. This has raised a demand for the deepening of the reform in rural economic relations and economic systems.

The principal part of our township and town enterprises is former commune and brigade enterprises. A series of historical conditions have determined that their property relations are inherently subordinate to land and regional administrative systems. Their typical pattern is that they rely for their establishment on the public accumulation of funds of their communes and brigades and they are owned by brigades in communes or by communes which are the principal entities and each of which is both a government administrative and an economic entity. In this pattern, the enterprises do not have full decision-making power over their own operation and cannot independently respond to changes in the market. The remuneration for labor and investment is not closely linked with the direct operational results of the enterprises. Naturally, these restrictive factors become what will mainly be reformed in deepening the structural reform.

However, technically, it is utterly unsuitable to assign by contract the responsibility for the property of an enterprise equally among all the people, whether among all the members of the collective that own the enterprise--theoretically this means all the members of the brigade or commune concerned--or among all the members of the enterprise. Only when we find an interested party to be in charge of the management of this property that cannot be divided equally can we actually achieve the separation between the ownership and the power of management over the enterprise.

34. As a result, various kinds of the system of assigning management responsibility to factory director (manager) emerged as the times require. The key difficulty that emerged immediately after the emergence of the above-mentioned system is how we are to accurately estimate the contribution of the enterprise's assets in creating wealth in the process of the contracted operation and thus make a distinction between the contribution by assets and that by labor in the process of distribution and actually achieve the separation

of the power of ownership over the assets of the enterprise and that over the management. However, it is precisely the accurate estimate of the contribution by the assets that is extremely difficult. When there is no capital market, the nature of this difficulty is by no means merely technical. From 1983 to 1984, disputes occurred in many commune and brigade enterprises at the time when the responsibility contracts were to be actually executed. The main reasons for the disputes were excessively high and low estimates of the value of the assets when the responsibility contracts were signed. When we assigned equally responsibility for land by contract, we quietly evaded this conflict, but we could no longer evade it when we unequally assigned responsibility by contract for the management of enterprises. It is not difficult to understand that after the responsibility is assigned there are three interested parties in a commune or brigade enterprise: 1) all the commune members who are the owners of the property in the commune or brigade enterprise; 2) the employees in the enterprise (including factory director or manager) who have dual status, being both members of the owner group and members of manager and laborer group of the enterprise; and 3) the managers and laborers who are merely managers and laborers and who do not enjoy the rights of ownership over the enterprise including the factory director, managers and workers employed by the enterprise. Among these three interested parties, there are not only relations concerning the distribution of the results of each production process, but also the relations concerning the distribution of the results of reproduction and reinvestment (in other words, the assets and income therefrom that emerge in the period when the responsibility for management is assigned by contract). Any confusion of the demarcation line between the income from the labor of management assigned by contract and the income from the assets may cause encroachment on the economic rights and interests of a certain interested party and make the distribution unacceptable for all the parties.

35. The contradiction in economic interests has roused people to find an appropriate way to solve this contradiction. As far back as around 1980, some communes and brigades in Jiangsu, Gansu, Shaanxi, and other provinces began to introduce the corporation system in assigning responsibility for the management of the enterprises by contract. Local people thought that this was a proper method to solve the problem related to unequal assigning of management responsibility by contract. The budding rural corporation economy is, of course, far from being mature, but after all, it initiated the various methods to calculate the assets of an enterprise by simulating market evaluation (evaluation by referring to bank interest rate, by parameters gained by experience, by expected profits, or by inviting tenders). After all this provides a useful method for maintaining the harmony in the interest relations at many levels in our commune and brigade enterprises and the scale of the property there. By the end of 1984, a fairly large proportion of commune and brigade enterprises in Henan, Shanxi, Shaanxi, Gansu, Shandong, and Anhui Provinces have established the corporation system. In various southern provinces, the method of raising funds among the masses of people by "issuing shares and paying dividends" has become generally accepted.

36. The deepening of the reform in the property relations in our rural enterprises is restricted by our macroeconomic situation. What is worth discussing

is that as the motive of agricultural investment weakens, the form of "micro-economic readjustment" of commune and brigade enterprises subsidizing agriculture by their profits has attracted the attention and been confirmed by the society from a higher plane. This has strengthened the direct subordinate relations of the assets of the enterprises to land. According to most recent statistics, in 1985, 50-70 percent of the after-tax profits earned by the rural enterprises all over our country had to be delivered to the owners in various forms (Footnote 2). This in fact exceeded the share that the owners of the assets ought to get. It was not only an encroachment on the economic rights and interests of the party to which responsibility of management is assigned by contract, but will also cause the enterprises to lack self-transformation capacity. The inertia to maintain these enterprises subordinate to regional government administrative power makes it impossible for our existing commune and brigade enterprises to become the center for new growth in the assets of rural non-agricultural enterprises in spite of the fact that these enterprises have already had certain technological and economic scale. In 1984, the number of peasants' individual enterprises and new combined enterprises among the township and town enterprises all over the country reached 4.41 million, accounting for 72.8 percent of the total; and in 1985, it further rose to 9.24 million, accounting for 84.5 percent. A comparison of the increase in output value shows that in 1985, the output value of our rural enterprises rose by 29.8 percent, but that of individual and combined enterprises rose by 124.2 percent (Footnote 2). The latter is becoming the principal form of the asset relations in our township and town enterprises. It is worth deep research into the question of what impact these enterprises will have on our entire rural reform and on the macro-economic management of our national economy.

/The third problem is to play to the full the impetus of money./

37. Among the various macroeconomic factors that affect the development of our township and town enterprises, the role of money is greatly strengthened. In the past, the major way for our country to employ rural surplus labor is the system of voluntary labor. In 1980, the value of the peasants' animate labor that was directly turned into farmland water conservation facilities, forests, houses, and so on, without exchange of commodities was 5.5-7 billion yuan in all, accounting for 1.6-2.1 percent of the national income and 5-6 percent of the accumulation of funds for the year and being 20 yuan on average for each peasant. (p 106 of Footnote 17) In the process of the emergence of the assets of our commune and brigade enterprises, peasants' unpaid labor accounts for a fairly large percent.

However, the development of the commodity economy makes the trend of paying charges for labor an irreversible one. From 1979-1980, there was a reduction in the scale of the construction of infrastructure and water conservation facilities for our farm land. One of the reasons for that was that we lacked money to pay for the labor which was provided free by people in the past. But in the same period, the scale of housing construction and afforestation in our rural areas grew quickly. This was to a great extent owing to the rise of the practice of paying wages for labor. The full development of our township and town will also to a great extent depend on whether we can raise

enough funds in the form of money. In the 1979-1980 fiscal year, every yuan of loans from banks and credit cooperatives caused the gross income of our township and town enterprises to rise by 5.08 yuan, the figure was 5.29 yuan for 1980-1981, 8.50 yuan for 1981-1982, and 9.79 yuan for 1982-1983. (Footnotes 7 and 8) The short-term impetus given by money was so clear that it could not help but stimulate the increase of our township and town enterprises' demand for credit and loans. In short, compared with land and labor, money has become much more important in the reorganization of our rural production factors.

An analysis of the environment as a whole shows that there is a huge amount of idle resources (principally labor but also equipment and other resources) and at the same time there is also a strong demand for consumption and investment in our society. Under these circumstances, even if we increase the net volume of the money in circulation, in theory it will not certainly lead to uncontrollable inflation. The increase in money supply can utilize the idle resources and thus quickly give rise to increase in supply, which will provide conditions for withdrawing the money issued. The difficulty is that before the supply emerges, there will be a heavy pressure of inflation. This may become a force of decontrol that will further aggravate market situation, in particular, under the background of a serious structural contradiction in our market. This is why we cannot indiscriminately exploit the effect of the increase in money. The fluctuation in our national economy in the latter half of 1984 reminded us that we could by no means overlook that.

38. However, it is impossible for us to return to the era in which we could transfer accumulation of labor merely by administrative orders. Therefore, it has become an important issue how we can give full play to the role of money in promoting the development of our rural economy and thus meet the demand for stabilizing our market by means of substituting labor for other resources on an even larger scale.

In fact, in the past few years, the rate of increase in the cash income of our rural residents was greater than that of our urban residents (it is difficult to sustain this trend), therefore, from the point of view of total quantitative balance, it seems that the increase in our rural residents' cash income has a greater impact on the "expansion of total demand." But it is relatively safe to increase our money supply in rural areas. In addition to the reason mentioned in the first section of this report that it is easier for domestic production system to satisfy the demand for consumer goods resulting from peasants' purchasing power, there are the following reasons: First, the cash expenditure of our rural residents consists of their investment in production and housing construction; therefore, the pressure on market is not so concentrated. Second, as our peasants have to undertake greater risk and generally enjoy a low level of social welfare, they have a strong tendency towards savings. According to the calculation based on the data of a sampling survey by the State Statistical Bureau, the average propensity of saving among our country's urban people was 13.1 percent on the average from 1982 to 1984 and their marginal rate of savings was 29.1 percent, but those for our rural residents were, respectively, 20.6 and 37.1 percent. After deduction of the housing expenditure from their consumption expenditure and adding it

to their savings, the marginal saving propensity in our rural areas would be higher than 50 percent, much higher than that in our urban area. (pp 565, 572 of Footnote 12) A functional analysis reveals that this portion of their savings can very hardly be regarded as "surplus purchasing power" and it is impossible for it to become a random crashing force on our market. And third, the speed of money circulation in our rural areas is low. According to a calculation based on relative data, it is only one-third of that in our urban areas.

Therefore, we have full reasons that our rural areas can become a huge experiment site for giving full play to the role of money in promoting the economy. The tight money policy in 1985 has already yielded an objective consequence of shortage of money. //Losing no time in switching the role of money from mainly promoting the quantitative expansion of our rural non-agricultural industry into mainly promoting the qualitative improvement of the industry (including the methods to utilize resources, efficiency, orientation of injection, and speed of money circulation)// should become a basic orientation for the deepening of the reform in our rural financial system.

/The fourth problem is that we should straighten out in an all-round manner the economic environment for the growth of our undertakings./

39. The more we view our rural structural reform in the light of its significance for the whole situation, the less can we be divorced from the environment of our national economy in doing the work of straightening it out. An analysis of the growth elasticity of the major national economic sectors from 1979 to 1984 reveals that if the growth elasticity of the various sectors is maintained unchanged in the near future, then calculated at an annual average GNP growth rate of 6 percent, 15 years later, manufacturing industry will account for 70.7 percent of the total of our country's non-agricultural sector, infrastructure industry will account for 24.7 percent and commerce will account for 4.6 percent. Obviously the national economy will be even more lopsided. Therefore, the problem of how to guide the orientation of the development of our undertakings cannot be evaded.

In this sphere, there is much existing international experience. For example, Japan clearly raised the issue of guiding the direction of the development of undertakings on its own accord and regarded it as an issue of strategic significance. It has thus scored a success known to all people. The well-known basic principle of income elasticity and productivity increase is regarded as the basic principle to plan and guide the development of its undertakings. This has yielded a huge impact on Japan and a number of other countries and areas which have risen quickly after World War II. (Footnote 18) However, all these countries referred to the parameters of international trade rather than the parameters in the domestic market in their countries at that time in deciding which sectors had to be selected as strategic sectors because of their high income and productivity elasticities. This conformed to their strategy of "relying on trade for the development of their countries."

It is difficult for our country to entirely follow their examples. As for a long time, our domestic market will be the major part of market for our

country, we should mainly gather the information for guiding our industries from our domestic market. However, it was precisely because the excessive low level of development of our domestic market, its incomplete price mechanism and market rules and the unsatisfactory organization of various kinds of market that continued to cause our domestic market to give distorted signals to guide the development of our industries. Without reliable figures, it is, of course, impossible to use the pithy principle of income elasticity and productivity increase to accurately select the principal industry. Therefore, a deep reform in our market structure and market behaviors becomes the key task and logic precondition for our country in formulating its policies toward various industries. Of course, it is impossible for China to obtain a fully developed market and carry out intervention with foresight at one stroke. As a process of transition (in other words, a process of study), it is perhaps appropriate to develop a few procedures for the making of the decisions on the direction to guide our industries by applying the idea of procedural rationality (rather than essential rationality).

40. Through this survey of our industries, we put forward the following procedures for the selection of industries for discussion: The first step, a survey about the income elasticity of major products; the second step, we should remove the elements of errors in the value of the elasticity; the third step, we should compare it with the value of income elasticity of country groups of different income; the fourth step, we should make a survey of the forward and backward chain reaction of our major industries; the fifth step, we should compare this degree of the reaction with that of the relevant industries in other countries under the comparison; the sixth step, we should make an investigation of the "bottleneck" of our resources and make a shadow evaluation of the prices of the resources; the seventh step, we should investigate the employment elasticity and potential of the major industries; the eighth step, we should estimate the opportunity cost of the various investment orientation; the ninth step; we should take into consideration the income distribution elasticity, the capacity of the industries to take along the development of other industries, the restriction of resources, and employment elasticity, calculate their weight in making calculation to decide our selection, take into account also the factors concerning the standard of the quality of our livelihood and our lifestyle and thus make judgment and choice on the basis of the information mentioned above; and the tenth step, we will definitely choose our principal industries. According to these procedures, we hold: we should continue to increase our rural areas' participation in the mining industry, construction of roads, construction of infrastructure, construction industry, and the food industry; while we should quicken the readjustment in our rural areas' machine building, textile, and sewing industries in order to meet the new principle of division of labor.

Through implementing these procedures for the making of the decisions on the selection of the direction to guide the development of our industries and through repeated readjustment and experiments, we will make our urban and rural economic policy makers at various levels exchange their information and the value of the variables that affect their choice of direction and thus enable them to jointly improve their ability to adapt themselves to and understand the deepened relationships in our market. This will certainly play a

positive and far-reaching role in facilitating the transition of the direction of the development of the composition of our industries toward a more harmonized direction.

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FOOTNOTES

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/Author's Remarks: The Institute of Development Research was established on the foundation of the Research Group on China's Rural Development and continues to be directly under the Rural Policy Research Office of the Secretariat of the CPC Central Committee and the Rural Development Research Center of the State Council.

Taking part in this research are: Zhou Qioren, Tu Ying, and Qiu Jicheng (who drafted and wrote the final version of the comprehensive report); Gao Xiaomeng (in charge of the section on agriculture); Ran Mingquan (in charge of the section on livestock breeding); Gao Shan (in charge of the section on forestry); Zhou Qiren (in charge of the section on mining and energy industry); Luo Xiaopeng (in charge of the section on machine building industry); Chen Xiwen (in charge of the section on food industry); Du Ying (in charge of the section of textile industry); Bai Nansheng (in charge of the section on construction industry); Yang Jinglun (in charge of the section on service trade); and Liu Hong (in charge of the section on comparison data of international experience). Chen Xiwen, Luo Xiaopeng, Deng Yingtao, and Lu Mai took part in the discussion to finalize this report. Song Guoqing, Hao Yisheng, Wang Mu, Wang Xiaolu, and Ding Ningning gave important opinions on the revision of the draft report./

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ECONOMIC MANAGEMENT

SHENYANG'S THREE MAJOR EXPERIMENTS

Beijing LIAOWANG [OUTLOOK] in Chinese No 25, 23 Jun 86 pp 28-29

[Article by Zhou Baohua [0719 0202 5478] and Lin Chen [2651 2525]:
"Shenyang's Three Major Experiments"]

[Text] It is not without reason that some people refer to the important industrial city of Shenyang as an experimental laboratory in the reform of the urban economic system.

As one recalls, during the meeting at Shenyang on the theory and practice of reform, the municipal party secretary Li Changchun [2621 7022 2504] indicated to specialists and scholars who had come from all over the country, that Shenyang is quite willing to be the site of experiments in reform.

During the last few years, Shenyang has indeed displayed this pioneering spirit by carrying out a series of experimental reforms in a vigorous and reliable, as well as courageous and scientific manner. Those that attracted most attention were the experiments with the leasing of industrial enterprises, the disposition of unprofitable enterprises by means of bankruptcy proceedings, and the system of share-ownership of enterprise assets.

Leasing--A Most Stringent System of Factory Director Responsibility

The first city in the nation to carry out experiments with leasing of small-scale industrial enterprises to individuals was Shenyang, and this was also the beginning of Shenyang's many reform experiments.

In the latter half of 1984, the Shenyang Motor Vehicle Plant selected two of its subordinate enterprises, the Shenyang Gasoline Pump Factory and the Shenyang Axle Pin Factory, as test cases for operation under leases to individuals. A lessee was selected by choosing the best among the many who submitted tenders through a process of inviting bids, entering bids, responding to bids, and evaluating the bids. By providing a guarantee in the form of a certain amount of personal property and two guarantors, and through legal notarization, the lessee obtained the right to operate the enterprise and became formally the representative of the juristic person.

To transform an enterprise into a comparatively independent producer of commodities, it is necessary to accept the appropriate separation of the managerial right and the ownership right, i.e. to find a concrete way of appropriately separating the "two rights." Leasing may be said to be the most thoroughgoing of the several ways that have so far been explored to achieve this "separation."

The pattern of this type of business operation constitutes a break with the traditional method that had prevailed for a long time, which had insisted that enterprises owned by all the must be directly run by administrative departments. It completely changed the situation where enterprises had to be appendages of government organs. The change also introduced legal methods into economic work, by securing legal guarantees for the fourfold interests of state, enterprise, personnel, and lessee.

Practice has proven lease operations to be conspicuously successful in rescuing small unhealthy enterprises. The Shenyang gasoline pump factory and the Shenyang axle pin factory have both been in a depressed state for many years, but this state of affairs was completely changed after only half a year of operations under lease. Comparing the latter half with the first half of 1984, the output value of the two factories increased 59 and 67 percent, and profits increased 3.2 and 13 times, respectively, while the individual income of staff and workers also increased 50 percent.

The "boss" in this operation of putting the two factories out to lease was manager Zhao Xiyu [6392 1585 0645] of the Shenyang Motor Vehicle Plant, who told us: "Leasing industrial enterprises in China is essentially a most stringent system of factory director responsibility. In the past, no serious attention was paid to the interests of those who managed the enterprises, a fact which made it impossible to raise their enthusiasm. Leasing operations will effect a linkage of interests among the four parties concerned, namely the manager, the state, the enterprise, and the staff and workers of the enterprise; it will induce the factory director to attend to factory affairs with the same meticulous care as if he would be fixing a large upright cabinet in his own house."

Following a more thorough study and expansion of this experiment, the Shenyang municipal party committee and the municipal government analyzed the experiences and decreed for the whole municipality a set of "Tentative Regulations for the Operation Under Lease of Small-Scale State Enterprises."

These regulations clearly and definitely point out that--on the premise of the immutable nature of the enterprise ownership system--such leases to individuals combine the lease mechanism with the systems of distribution according to work and democratic management into a socialist pattern of business management. Whatever the lessee gains as bonus in the proportion specified in the lease contract is income from individual labor and as such protected by state law. In view of the risks involved, the lessee must not transfer all his annual income to the consumption fund, but must deposit part of it in the enterprise as a lease security deposit, to be better able to face

any risks of his business operations. At the conclusion of the lease, the security deposit will still revert to the lessee according to the provisions of the contract.

Last year, 33 small-scale industrial enterprises in Shenyang were operated under lease arrangements. Compared with the preceding year, the gross value of their industrial output had increased 61.5 percent, gross profit increased 2.3 times, and these items showed 4-time and 6-time increases, respectively, compared to the average magnitude of increases of the entire municipality. This year the number of the city's small-scale industrial enterprises operated under lease to individuals increased to 63.

Bankruptcy--Enterprises To Be No More Merely Responsible for Profits Without Responsibility for Losses

If we say that leasing is a method of stimulating managerial enthusiasm and thereby spurring on unprofitable enterprises to bestir themselves, then bankruptcy proceedings are a kind of penalty that can be imposed on such enterprises.

At a time when academic circles throughout the country were still arguing whether enterprise bankruptcy can exist in socialism, Shenyang, proceeding from actual conditions, concluded its meticulous investigation and studies of the matter by promulgating in February last year a set of "Tentative Regulations Governing Bankruptcy and Liquidation of Industrial Enterprises Under Urban Collective Ownership." Shenyang thereby transferred the bankruptcy problem from the theoretical field into practical reality.

If socialist enterprises are to be transformed into relatively independent producers and traders of commodities, it is necessary to resolve the problem of their being only responsible for profits without responsibility for losses and to truly institute their responsibility for both profits and losses. Article 26 of the Shenyang bankruptcy regulations incorporates this new concept, when it prescribes: Enterprises whose assets are insufficient to meet their obligations, or who for two years have incurred losses not due to government policies, if such losses exceed 80 or more percent of the state's assets in the enterprise, fall within the scope of enterprises to be declared bankrupt and to be liquidated. If they cannot be revived after 1 year's readjustments and rescue measures, they shall be officially declared bankrupt. The assets of the enterprise shall then be used to pay its debts. Its staff and workers shall without exception become "job-waiting" and receive livelihood support from a bankruptcy social relief fund.

On 3 August last year, the Bureau of Industry and Commerce of Shenyang Municipality issued "bankruptcy warning notices" (commonly referred to as "yellow warnings"), based on the bankruptcy regulations, to three enterprises, the Municipal Agricultural Machinery Plant No 3, the Municipal Metal Foundry, and the Municipal Explosion-Prevention Materials Plant, setting them the time limit of 1 year to effect adjustments and relief measures.

The loud and clear sound of the "yellow warnings" caused a stir throughout the entire city.

This measure put a stop to the practice of allowing improperly managed enterprises to get away with it again and again. Plant prosperity is one's glory, failure is shameful; the bankruptcy regulations thus tied the interests of staff and workers closely to the interests of the enterprise and vigorously aroused a sentiment among the enterprise staff and workers of sharing a common fate. The staff and workers of the Shenyang Agricultural Machinery Plant No 3 and of the Municipal Metal Foundry had indeed been awakened. They strengthened business management, energetically opened up new markets, enhanced the quality of their products, and the beneficial consequences soon became evident. On the other hand, at the Explosion-Prevention Materials Plant, "the disease had attacked the vitals," making it impossible to revive the enterprise, which then had to be declared bankrupt.

The leading comrades of the State Council fully approved Shenyang's bankruptcy regulations. In the middle of June, China's first large-scale "Symposium on the Theory and Practice of Enterprise Bankruptcy and Liquidation" was held at Shenyang. This reform experiments in Shenyang resulted in an "Experiment Report," which is of greatest reference value for the formulation of the future national bankruptcy law.

Shares--An Attempt to Reform the Internal Ownership Structure of Certain Small-Scale Enterprises

In China, share-ownership economy is something of a not too large and not too small "forbidden zone." Just as in the case of leasing and bankruptcy, many conceive it as a "patent" held by capitalism. Actually, capitalism has no exclusive right at all to these three economic methods, which are a part and parcel of commodity economy. Since we are intent on practicing a socialist commodity economy, it certainly behooves us to use the mentioned economic methods as reference and explore leasing, bankruptcy, and share-ownership in ways that will suit the national conditions of China.

Based on the above-described reflections, Shenyang has not only successively tried out leasing operations and bankruptcy procedures, but also, from the latter half of last year on, an asset-share system as a reform experiment in two collective-owned enterprises of the Bureau for the Machine-Building Industry.

The share capital of the two Shenyang enterprises serving as test cases consists of shares belonging to the state, to collectives, and to individuals, while the enterprise is also allowed to solicit share subscriptions from other enterprises, industrial units and individuals. The investors jointly share management, jointly profit, and jointly bear the risks involved. The net profits after taxes are distributed among the shareholders in proportion to their investments. If the enterprise incurs losses, not only is there no bonus distributed on every type of share, but joint responsibility has to be borne by each share according to its proportion in the total of all shares of the enterprise. The shares belonging to the enterprises are centrally administered by the People's Bank; shares belonging to individuals may be transferred against remuneration, and may also be donated, inherited, and serve as security, as far as legally permitted.

In the first test cases, the Shenyang Small Compressor Factory and the Shenyang Compressor Valve Factory converted their original enterprise assets into shares, and then solicited subscriptions to individual shares from their staff and workers to the amounts of 300,000 and 150,000 yuan, respectively, which accounted for 16 and 13 percent, respectively, of the total assets of the enterprises. This shows that individual shares account for only a small portion of the total shares of the enterprises, the largest portion still remains held by the state and the collectives. In this way, the problem of monopolies by individual shareholders cannot arise, and there can also be no change in the socialist public-ownership character of the enterprises.

By instituting the share-ownership system, the staff and workers of the enterprise, on the one hand, become owners of its assets, and, on the other hand, also its managers, workers, and the beneficiaries of its achievements. Enthusiasm and creativity among staff and workers has risen to unprecedented heights. Last year's output value of the small compressor factory and the compressor valve factory had risen 24.5 and 27.5 percent, respectively, over that of the preceding year, and profits had risen 26.6 and 47.5 percent. Total bonuses and dividends on every 100 yuan of individual shares held by staff and workers at the two factories were 28.80 and 31.48 yuan, respectively.

In March this year, the Shenyang Municipal Government again approved 19 collective machinery industries and 1 small-scale state-run enterprise to convert on trial to the share-ownership system. In view of the good results in the test cases, the relevant departments of the municipal party committee and of the municipal government are now in the process of drafting documents of a regulatory nature for the introduction of the share-ownership system in small-scale enterprises.

The three major experiments of leasing, bankruptcy proceedings, and conversion to the share-ownership system carried out by Shenyang in the course of its reform experiments have shown exuberant vitality. Of course, there are still many shortcomings in these exploratory efforts, that require further perfection. For instance, operation of small-scale enterprises on a lease basis is currently limited to test cases with enterprises that incur losses or are on the verge of incurring losses; would it not also be suitable for profitable enterprises? In view of the fact that most lessees lack the necessary funds for security deposits, although there is indeed a provision in the contract that in case of bankruptcy compensation must come out of rent, the regulations prescribe that the lessee must not transfer the full amount of the year's income to the consumption fund, but must deposit one part in the enterprise as a lease security fund. However, if the bankruptcy unexpectedly occurs in that very year, how is the question of compensation to be dealt with? Again, for instance, in the case of enterprises on the verge of bankruptcy but allowed 1 year as "period for relief measures," how is one to "help without taking on the whole burden, rescue but keep within reasonable limits?" The regulations on enterprise bankruptcy have not yet outlined clear limitations for the assistance. Again, for example, after converting to the share-ownership system, how is one to give expression to the principle of distribution according to work internally within the enterprise; should one

impose controls over the individual shares, and how is one to effect such controls? After converting to the share-ownership system, how are the party organizations, labor unions, the staff and worker representative assemblies to carry out their work in future? All these questions are now being further studied and explored by the Shenyang Municipality.

9808

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FINANCE AND BANKING

FINANCIAL BALANCE REPORTED ACHIEVED IN EVERY 5-YEAR PLAN

Beijing CAIZHENG [FINANCE] in Chinese No 5, 8 May 86 p 11

[Text] China Achieves Budgetary Balance in Last Year of Every 5-Year Plan

Unit: 100 million yuan

Period	First 5- Year Plan (1953-57)	Second 5- Year Plan (1958-62)	Third 5- Year Plan (1966-70)	Fourth 5- Year Plan (1971-75)	Fifth 5- Year Plan (1976-80)	Sixth 5- Year Plan (1981-85)	Seventh 5- Year Plan (1986-90)
Items	1957	1962	1970	1975	1980	1985	1990
Revenues	310.19	313.55	662.90	815.61	1,085.23	1,854.11	2,567.00
Revenues from enterprises	144.18	146.22	378.97	400.20	435.24	40.64	
Revenues from taxes	154.89	162.07	281.20	402.77	571.70	2,010.82	
Expenditures	304.21	305.25	649.41	820.88	1,212.73	1,825.94	2,567.00
Capital constructions	123.71	55.65	298.36	326.96	419.39	569.73	
Funds allocated for developing potential, remolding, and trial production of new products	2.29	14.65	14.78	31.47	80.45	100.50	
Cultural, scientific, and public health undertakings	27.76	36.74	43.65	81.29	156.26	317.16	
National defense	55.11	56.94	145.26	142.46	193.84	191.48	

Note: (1) Revenues include incomes derived from foreign loans and expenditures include the use of foreign loans.

(2) Losses incurred by and price subsidies paid to the enterprises in 1985 were calculated according to chong jian [0394 8096] income and have been deducted from the total amount of revenues. That is why the figure for revenues is smaller than that for the various taxes.

(3) Following the second stage of the payment of taxes instead of profits reform, the profits of most of the enterprises were paid in the form of taxes. That is why there is a corresponding reduction in the incomes of the enterprises in 1985.

(4) Revenue and expenditure figures for 1985 are budgetary amounts to be implemented while those for 1990 are figures according to the plan.

(Supplied by the Statistical Bureau of the General Planning Department of the Ministry of Finance)

FINANCE AND BANKING

BANK OF CHINA OUTLINES MAJOR TASKS FOR 1986

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 4, 4 Apr 86 pp 11-13

[Article by Wang Deyan [3769 1795 5888]: "Strive To Raise Foreign Exchange Funds and Vigorously Support Exports To Earn Foreign Exchange"]

[Text] The major tasks of the Bank of China in 1986 are properly using funds, exercising proper control of the orientation of capital investment, and striving to meet the demand for improving macroeconomic control while continuing to enhance control over the scale of credit. The focus of the work is to continue to do a good job in raising foreign funds, actively expand business regarding deposits and savings deposits, vigorously support foreign trade and exports, support technological transformation, tourism, and the development of foreign enterprises, joint ventures, and cooperative enterprises, ensure the foreign exchange needs of major state projects, further raise the level of international account settlement, strive to earn more foreign exchange in a shorter period of time, conscientiously strengthen administration and management, and strive to improve service quality.

1. Tap the potential of funds and speed up capital turnover

The credit plan of 1986 can be properly fulfilled mainly by striving to expand the sources of funds, vigorously tapping the potential of funds, speeding up capital turnover, making proper arrangements for capital supply, ensuring the support of key projects, and focusing energies and time on improving macroeconomic control.

A. Under the current condition that the supply and demand contradiction of Renminbi and foreign exchange funds is still prominent, it is imperative that more time and energies are spent to improve macroeconomic control and that funds are used where they are most needed. It is necessary to exercise proper control over the orientation of capital investment, pay close attention to the efficient use of capital, and create some good experiences in speeding up capital turnover.

B. Vigorous efforts should be made to expand business in foreign exchange and Renminbi deposits and savings deposits, strengthen leadership over the work of absorbing deposits, and solve existing problems. First of all, it is necessary to organize well foreign exchange deposits and enterprises'

deposits. Existing business organizations should be used to handle business in Renminbi savings deposits according to state policies and unified rules and regulations and efforts should be made to strengthen publicity, provide better service, and earnestly carry out this task.

C. Deposits should be linked to credit. When Renminbi deposits decline or fall short of the plan, credit should be reduced accordingly. When the deposit plan is overfulfilled, the surplus amount may be used to extend more credit and circulating fund loans within the highest limit approved by the People's Bank.

D. Vigorous efforts should be made to tap the potential of funds. Continuous and conscientious efforts should be made to examine, sort out, and reduce unreasonable loans and hasten the collection of overdue loans. At the same time, it is also necessary to strengthen the distribution and horizontal links of funds and alleviate the contradictions in supply and demand of capital.

2. Properly use capital and vigorously support exports to earn foreign exchange

Vigorously supporting exports to earn foreign exchange is the central task of the Bank of China. All branches should strengthen the distribution of funds, properly arrange capital supply, and give priority to ensuring the smooth fulfillment of foreign trade and export plans.

In 1986, Renminbi circulating funds should be centralized to ensure the planned procurement of export commodities. Vigorous supports should be given to intermediate- and long-term loans for the exports of machine-building and electronic products and the reasonable capital needs of foreign enterprises, joint ventures, and cooperative enterprises. Foreign exchange loans should be used mainly to support major state construction projects such as energy development and transportation and communications; support the technological transformation of enterprises with a short construction period and the ability to earn foreign exchange through exports; and, within the bearing capacity of funds, vigorously support contracted foreign construction projects, tourism, and the development of foreign enterprises, joint ventures, and cooperative enterprises.

Due to a reduction in state foreign exchange reserves and the limitation of our bearing capacity as a whole, loans with preferential interest rates basically will not be increased from now on, but the current balance of such loans may still be used for such purpose. All branches should speed up the turnover of such capital and create more social economic results.

With regard to special foreign exchange loans, we should still persist in suspending Type B, collect and convert Type B into funds, and transfer them to the headquarters so as to concentrate all energies on Type A, strive to balance as soon as possible the two types of loans, and study how to distribute them after they are basically balanced.

It is necessary to exercise strict control over fixed-asset investment. In 1986, we should not only control the general scale of investment but also pay

attention to readjusting investment patterns and sorting out projects. Except for energy, transportation, export, and other state-approved projects, all above-plan projects newly started in the fourth quarter of 1985, according to the circular of the State Council, must have their allocations cut off and be subject to clearance. Loans for capital construction, technological transformation, and other fixed-asset investment must be put under strict control. Granting above-plan loans is prohibited. In case of violations, branch presidents will be held responsible.

Before a system is officially established, credit business should be focused on doing a good job in planned financing and management of investment, rent, and lease projects on which contracts have been signed. After a system is officially established, other arrangements will be made. From now on, credit business should focus on using foreign capital, supporting technological imports, vigorously carrying out businesses regarding Chinese foreign joint investment, international rent and lease, information, and consulting services, and playing the role of a bridge in the open policy.

C. Continue to do a good job in raising foreign exchange funds

The task of raising foreign exchange fund is still very heavy on the Bank of China in 1986. This demands that we plan as a whole, make early arrangements, use different channels and various methods, pick the opportune moments, and try in all possible ways to raise foreign exchange funds on relatively favorable terms.

Foreign fund raising should be handled mainly by the headquarters. When branches help local areas get loans directly from foreign countries or provide guarantees and organize banking groups to issue or transfer loans for local areas, they must abide by the relevant rules and regulations of the state and the headquarters. Without the approval of the Bank of China, they should not provide guarantees for foreign loans in the name of the Bank of China.

4. Strengthen administration and management and improve service quality

In the past few years, the business, organization and personnel of the Bank of China have grown rapidly, but its internal management level lags far behind the development of situation and its service quality also fails to satisfy the demand of the large number of clients. Strengthening administration and management and improving service quality have become a task of top priority for the Bank of China. In 1986, the Bank of China ought to implement the "Interim Provisions of the People's Republic of China for the Management of Banks" in an all-round way, emphatically strengthen the management of international account settlement, credit, trust, financial accounting, and cashiers' work, improve service, and increase work efficiency.

International account settlement must be strengthened. In accordance with the demands of the foreign trade account settlement conference held by the Bank of China in 1985, we should further strengthen supervision over the taxation of imports and the use of foreign exchange for the purpose of imports. First of all, we should do a good job in import taxation and ensure that all requirements on foreign exchange, or the amount of foreign exchange, and

Renmibi in addition to relevant requirements of import taxation must be met. Export exchange settlement should continue to adopt safe and reliable methods and gradually improve them. It is necessary to establish and perfect various rules and regulations, strengthen regional business cooperation and cooperation between banking and foreign trade organizations, improve international account settlement instruments and facilities, and improve the quality of international account settlement service.

In regard to credit and trust services, we should continue to do a good job in examination and clearance; tighten control over credit plans, the limits of authority to grant approvals, loans, and investment projects; strengthen basic work such as business statistics; and pay special attention to perfecting all rules and regulations. The trust system in principle should be handled according to the stipulations prescribed in the "Interim Provisions of the People's Republic of China on the Management of Banks." Concrete measures for implementation will be adopted separately.

We should conscientiously implement the "Accounting Law" and the "Interim Provisions on Auditing" which was issued by the State Council, continue to strengthen financial accounting and auditing, strictly enforce financial and economic disciplines and rules and regulations, fully develop the supervisory function of auditing, and enable financial accounting and auditing to become effective means for raising administrative and managerial levels.

Improving service is an important part of the 1986 reform of monetary system. State Councilor Chen Muhua recently wrote an inscription for the Bank of China, calling on us to "provide quality service for clients at home and abroad." In accordance with this instruction, we should adopt feasible measures, strengthen the personal responsibility system, strive to improve service attitude and quality, increase work efficiency, speed up computer and electronic communications projects, and use quality service to facilitate the growth of all businesses.

We should continue to strengthen the development of cadres' contingents, do a good job in cadre training, manage well the four training centers of the Bank of China and focus on the training of cadres and specialists at and above the section level.

In accordance with the spirit of paying simultaneous attention to "both civilizations" set forth by the CPC Central Committee, we should conscientiously correct the work style of our party and bank, strengthen the work of intellectual progress and strive to achieve a fundamental turn for the better in the work style of our party and bank. Main tasks that must be done well are as follows: 1) Have leaders take the lead, set an example, take the job seriously and come up with good results; 2) dare to tackle tough jobs and handle the investigation of major and important cases; 3) carry out ideological education, strengthen work in intellectual progress and extensively pursue and popularize education in legal systems, communist ideals, and foreign affair disciplines; and 4) further strengthen discipline inspection, continue to staff and perfect discipline inspection organs at all levels, assign discipline inspection cadres, and give full play to the proper role of discipline inspection.

12302
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FINANCE AND BANKING

FULFILLMENT OF BUDGETARY TARGET FOR 1986 STRESSED

Beijing ZHONGGUO SHUIWU [CHINA'S TAXES] in Chinese No 5, 12 May 86 pp 2-4

[Part III of a report delivered by State Council member and concurrently Minister of Finance Wang Bingqian [3769 0014 0051] at the Fourth Meeting of the Sixth NPC]

[Text] To ensure the successful completion of the state budget for 1986, to continue to achieve a budgetary balance and to complete the economic and financial goals for the first year of the Seventh 5-Year Plan, we must unify our thoughts and pool our wisdom and efforts in approaching the following tasks.

We must strive to increase production and reduce expenditures and raise the standard of economic effectiveness to ensure the continued and steady increase in revenues. Long years of actual experience tells us that the basic solution of our financial problems lies in the development of production, especially under the present situation marked by the invigoration of the economy, the implementation of the open door policy, and the introduction of reforms. We must not only preserve and develop the original sources of revenue, but also seek to open up and develop new sources. We must find ways and means to increase production, engage vigorously in the various productive undertakings according to the plan and the policy of the state, develop tourism and the service trades, and strengthen the socialist commodity economy in order to increase the income of the state. We must also take note of the problems of poor product quality, the waste of materials, the slow rate of circulation of funds and the length of the construction period. These problems are particularly irksome among certain production and construction units which, by neglecting to adopt scientific methods and failing to observe the rules of economic accounting and to fulfill their responsibilities, have incurred the loss of large amounts of funds through creating losses in their construction work, the scrapping of their products as worthless, and the spoilage of their materials. People in general have now come to recognize corruption as a crime. However, while it is agreed that a person guilty of corruption involving 10,000 yuan should be held accountable, some people still find it difficult to equate wastage with crime, so much so that nobody raises any questions over the wastage of 10 million yuan. Excuses are sometimes offered by way of explanation and responsibility is shifted to somebody else so that big problems are turned into small problems and small problems into no problem at all. That being the case, we must take it upon ourselves to make serious efforts to enhance economic effectiveness, to increase income, to practice strict economy, and to eliminate waste. Each and every economic department and unit

must give top priority to the increase of economic effectiveness and each and every person must wage a struggle against the incurrence of loss and wastage. The governments at various levels as well as the concerned departments must investigate and deal strictly with major instances of loss and wastage and hold those in leadership positions and the concerned parties accountable. At the same time, the various regions and departments must place emphasis on and strengthen the operational administration of the enterprises, strictly enforce the economic accounting system, direct their efforts toward improving the quality of their products, increase the production of commodities in demand, reduce production cost and wastage, speed up the circulation of funds, shorten the construction period, and use the least amount of consumption to achieve the highest economic results.

As regards our work in the financial field, we must, in addition to directing our attention to ways and means to create and to accumulate wealth, concern ourselves with how money is spent. We must put money to the best use, manage it well and spend it in a flexible manner so that the maximum benefit may be derived from the available funds. We must adopt positive measures to support the technical reform and improvement of enterprises and to develop to the full the potential of the enterprises themselves so as to bring about a significant improvement in economic effectiveness in the areas of production, construction, and circulation. We must try harder to turn our losses into profits, to reorganize the enterprises whose production is not sufficient to cover their debts and to compel them to engage in the production of other commodities. The allocation of funds by the treasury and the banks should be denied those projects which have been put into operation without the approval of the state and subsidies are not to be paid by the state to cover losses incurred by projects after they have gone into operation. With the development of production and the continual improvement of economic effectiveness, the financial and tax departments at various levels must direct their efforts toward increasing revenues to ensure the successful completion of the budgetary task of the state.

We must continue to strengthen and improve macroeconomic control, to do what we are capable of doing to the best of our ability and to exercise control over and to cut down on expenditures. We must regard it as imperative to maintain a basic balance between the total amount of supply and demand in society and see to it that the scale of expenditures and the various major expenditures are kept within the limits of the state plan and the state budget by making every effort to economize, to use money wisely and to avoid waste. In 1985, the total amount of investment in capital construction made by state-owned units came to the substantial amount of 106.1 billion yuan, showing an increase of 42.8 percent compared to the previous year. According to the state plan, the amount for this year has been set at 95 billion yuan. Effective control over this amount of investment is crucial to the achievement of stable development during the current year. For this reason, the amount of investment, no matter whether or not it is within the budget and whether it is made by the central government or the localities, must not exceed that set by the state plan. At the same time, we must, to meet the demands of the state plan, also seek to readjust the structure of investments, reduce to a proper extent investments in nonproductive operations and the processing industries and increase investments in energy production and the transportation, communication, and raw materials industries so as to create

favorable conditions for the smooth development of the national economy. In recent years, the excessive rate of increase in consumer funds has exceeded that of economic development. In 1985, the total amount of wages paid to staff workers throughout the nation showed an increase of 20.9 percent compared to the previous year, a rate that is extremely high. In order to keep the increase in consumer funds within proper limits, we must put a lid on consumption expenditures, especially administrative and management expenditures, and continue to exercise control over the purchasing power of the various groups in society. Quotas should also be set for the lower levels to control the two categories of expenditures mentioned above. As regards incidental expenses incurred by cadres in their travels abroad, we must also strengthen supervision and control over foreign exchange and RMB expenditures and put an end to such wasteful practices as the making of investigation trips in duplication. Furthermore, in order to achieve an overall balance in the various types of funds, the decision has been made by the State Council to exercise tighter control over funds not included in the budget, to overhaul the "petty cash" funds of the various units and to establish the necessary system of control so as to make it possible to make use of funds in a proper manner and to develop economic effectiveness to a further extent.

To meet the need for consolidating, readjusting, restructuring and improving, we must do a good job in filling the gaps in the reform of the economic system and perfecting the taxation system. Aside from what was said earlier in the report regarding the need to reduce the readjustment tax, to increase gradually the depreciation rate for large and medium enterprises and to further invigorate the large and medium enterprises and enterprises engaged in the export trade, we must also continue to perfect the industrial and commercial tax system during the current year. We must take note of the new situation which has arisen following the readjustment of prices for certain commodities in readjusting upward or downward the tax rates for the various products. We must further expand the scope for levying the appreciation tax, readjust properly the appreciation tax rate, improve the method for the assessment of taxes, and levy the natural resources tax on mineral products which come under the category according to the amount of production. We must draw up without delay regulations for levying taxes for the use of land, real estate, motor vehicles and shipping and have them promulgated and enforced on a trial basis. Certain reforms were already adopted in the financial system last year. During the current year, the various provinces, autonomous regions and cities directly under the central government must continue to enforce such measures as "the classification of types of taxes, the checking and ratification of incomes and expenditures and the assumption of contract responsibilities by the various levels." We must, however, make use of our experience in improving the financial management of cities below the provincial level and the counties. The finances of the towns should be managed according to the principle applying to rural areas, namely, the separation of the government from the cooperatives and the perfection by gradual degrees of the financial management of the towns by making use of our experience in that area. At the same time, the state must focus its attention on the necessary preparatory work in the financial field to bring about reforms next year and the year after next and achieve coordination with and render its support to the reform of the economic, scientific, technical, and educational systems.

It must, in particular, make use of its financial policy and resources to promote transregional and transdepartmental economic integration laterally among the enterprises.

We must strengthen financial supervision, demand strict observation of financial and economic discipline and put an end to unhealthy tendencies to ensure the continual achievement of budgetary balance, to promote the reform of the economic system, and to strengthen the establishment of a socialist spiritual civilization. The departments of the central government have done well in taking the lead in rectifying the party workstyle and in checking unhealthy tendencies throughout the nation. In coordination with such efforts, we should mobilize the cadres and the masses in the various battle lines throughout the nation to carry forward the glorious tradition of waging an arduous struggle in building up the nation through thrift and hard work, to increase production and reduce expenditure, to oppose extravagance and waste, and to rectify unhealthy tendencies by strengthening the work of supervision and investigation.

From what was revealed by a full investigation of tax revenues, finances, and commodity prices conducted last year, it is clear that violations against financial and economic discipline in the economic field are of serious proportions. Some enterprises, resorting to selfish departmentalism, have knowingly broken the law by evading the payment of taxes, retaining too large an amount of profits, engaging in the transfer of state funds or, by overstepping the limits of authority granted by the state, reducing their taxes or exempting themselves from the payment of taxes, and increasing the amount of special allocated funds. Some units, by using the pretext of "reform and invigoration," have established collective "companies" and centers and have diverted the properties, products, funds and profits belonging to state-owned enterprises to collectives, thus turning what belongs to the public into the property of private parties. Some individuals are not above taking advantage of their authority to enrich themselves and to transfer certain commodities, loans, subsidies, and foreign exchange to their relatives, friends, children, and related households engaged in commercial operations. Others, disregarding the laws of the state and the interests of the masses, resort to raising prices, charging fees, exacting penalties at random, and extorting and embezzling what should rightly belong to the masses. Some, plagued by an overdose of individualism, vie with one another in purchasing or replacing imported motor vehicles, make use of various pretexts to travel abroad at public expense and give dinners and presents to their friends. A few people have been guilty of such serious crimes as graft and embezzlement, the offering and taking of bribes, speculation and fraud, smuggling and trading in contraband goods, and the scale of economic information. Although these problems involve only a few units and cadres, they have serious consequences and repercussions in that they interfere with construction, the open door policy and reforms, corrupt the morals of the cadres, undermine the party workstyle and social values, and damage the image of the party and the government in the minds of the masses.

There is a close link between bringing about a basic change for the better in the financial and economic situation of the state on the one hand, and in the party workstyle and the social climate, on the other. The continued existence

of unhealthy tendencies would not only bring about greater economic losses, but also seriously impede the work of bringing about a basic change in the party workstyle and the social climate for the better. It was for this reason that the decision was made by the State Council that while the work of strengthening the socialist legal system and exercising supervision and control as a matter of routine is in progress, we must, in the next few years, pick the opportune moment to conduct a general investigation into tax revenues, the financial situation and commodity prices, deal with the problems of extravagance and waste as matters of great consequence, rectify unhealthy tendencies in the economic field, engage in the strict enforcement of law and discipline, and see to it that matters are dealt with scrupulously according to the law, that laws are strictly enforced and that those who violate the law are held accountable so as to ensure the successful establishment of a socialist material and spiritual civilization.

Members of the NPC: The state budget has been implemented in a basically normal manner during January and February. As the party workstyle and the social climate take a turn for the better and the various measures of economic reform are being gradually perfected, the national economy is certain to be developed in a more stable and coordinated manner during the current year and conditions will be most favorable for the implementation of the state budget during the current year. We must work closely with the people of various nationalities in the nation in tackling our various tasks. We must refrain from empty talk and do actual deeds as we direct our efforts toward the struggle to implement successfully the state budget during the current year!

9621/7358

CSO: 4006/1079

INDUSTRY

TERTIARY INDUSTRY NEWLY EMERGING FORCE IN COUNTRY

Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 28 14 Jul 86 p 13

[Article by Ji Xing [4764 5887]: "Tertiary Industry Emerges as a New Force in China"]

[Text] Over the past 5 years, China invested an enormous sum of more than 160 billion yuan in tertiary industries. This amount is 47 percent of the investment allotted by the state for capital construction in state-run enterprises. At present, there are more than 73 million people employed nationwide in tertiary industries. For the first time, more people are employed in tertiary industries than there are in primary and secondary industries.

This fact shows that China's production structure is hastening toward that characteristic of a modern economy. In 1985 gross output value in tertiary industry was more than 170 billion yuan. Five years ago gross output in tertiary industry was only 19 percent of the output for primary, secondary, and tertiary industries combined. Now, this percentage has risen to 21.8. Over the past 5 years, output in tertiary industry has risen 12.6 percent per annum. This figure is higher than those for the annual growth rates in primary industry and of secondary industry during the same period.

As China moved from an agricultural society to an industrial one, everyone tended to emphasize production and neglect circulation and the services. Because tertiary industry was not viewed with importance, its development fell greatly behind that of industry and agriculture. A goal over recent years has been to change this traditional view. Last April, the State Council approved a report by the State Statistical Bureau on the tabulation of statistics on tertiary industry. Furthermore, gross national product was to be used as an important index of progress in each of the economic sectors. This is in contrast to the use, over the past 30 years, of the gross value of industrial and agricultural output as the main index. The choice of index for China, which operates under a planned economy is of crucial importance because the index used provides strong incentive to produce..

China divides the three major industries in the following manner:

Primary industry: Agriculture (including forestry, animal husbandry, and fishery)

Secondary industry: Industry (including mining, manufacturing, power, running water, gas, etc.) and construction

Tertiary industry: Industries other than those in primary and secondary industries. Included are 4 levels: circulation, production and daily services, support services for the improvement of science and culture, and essential social services.

The state is now developing the tertiary industry as an independent sector of the national economy. This is a novelty in China. It has attracted attention from many quarters and various social forces are being mobilized for its support. China has taken this action in coordination with its policy of opening the country to the outside world and invigorating the economy at home and the policy of pooling the resources of the state, the collectives and the individuals. In a few years, tertiary industry has become one of the most active sectors in economic reform. Now, tertiary industrial units run by the collectives and individuals account for more than two-thirds of the total number, and in 5 years, the number of its employees has increased 1.4-fold. Its share of the total retail sales volume has also increased from 16 percent to 60 percent in the same period.

The vigorous development of the tertiary industry has solved one of China's difficult social problems--the problem of employment. From 1981 to 1985, this industry has provided more than 27 million jobs in the country, equivalent to 37 percent of all the jobs newly created in the country in the same period.

Tertiary industry's rapid development marks a good beginning for both economic development and social progress in China. In the past 30 years and more, China directed its efforts at the material production departments so that its huge population did not suffer from hunger and cold. After the development of material production, both the production sector and the broad masses are making higher demands on services. For example, if everyday services are undeveloped, people will have difficulty making clothes and taking baths; if the information services are faulty, poor sales and stockpiling may result; if the consultation services are undeveloped, some enterprises on the one hand may lack technical skill, and the fruits of scientific research and the scientific and technical personnel, on the other hand, may have no opportunity to demonstrate their worth; and if banking is undeveloped, some areas and departments may have idle funds while other areas and departments may be short of funds. According to the estimate of some experts, developed telecommunications can speed up the turnover of funds in the whole country by 0.1-1 percent, and save several hundred millions or even billions of yuan each year. People have become increasingly aware that development of the tertiary is the only way to promote social division of work, to develop the commodity economy, and to raise productivity. That is why the state has taken a series of measures to stimulate the development of this industry. The communications

and the posts and telecommunications trades now enjoy priority in investment for the national economic development. Up to last year, the turnover of cargo traffic was 53 percent higher than 5 years ago, totaling more than 1,800 billion ton/kilometers, and 75 domestic air routes had been opened. The number of commercial, food and service outlets also increased more than 4-fold. Scientific and technological services and consultation services have mushroomed in various large cities. For example, there are in Guangzhou more than 300 offices for economic consultation, scientific and technological consultation, management consultation and trade consultation, with more than 30,000 employees. According to a survey by departments concerned on 40 enterprises under their jurisdiction more than 40 million yuan in profits were realized.

Some time ago, the World Bank issued a report with the proposal that China should take a different road of development--one which will make better use of its enormous wealth of human resource. This proposal jibes with a report by China experts on the study of China in the year 2000. In the Seventh 5-Year Plan now being implemented in China, the development of the tertiary industry is in line with national policy, and beginning this year, this development has been formally included in plans for national economic and social developments.

9411

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INDUSTRY

DEVELOPMENT OF SHIP DISMANTLING INDUSTRY DISCUSSED

Beijing WUZI GUANLI [MATERIAL MANAGEMENT] in Chinese No 5, 20 May 86 pp 11-12

[Article by Wu Xiuwen [0702 0208 2429] of China Ship Dismantling Corporation:
"A Tentative Discussion of the Development of China's Ship Dismantling
Industry"]

[Text] Along with the implementation of the policy of invigorating the economy at home and opening the country to the outside world, China's ship dismantling industry developed vigorously in the past 3 years. The number of ship dismantling yards has increased from less than 20 to more than 200, and the capacity of dismantling discarded ships has increased from several tens of thousand to several million tons each year. Beginning with the small home-made passenger and cargo vessels, China is now able to dismantle ships of many types from many countries. Its ship dismantling capacity is now in the world's top rank. In the past 3 years, China's ship dismantling industry has supplied to the domestic market more than 1 million tons of rolled steel processed from the plates of dismantled ships in addition to several tens of thousand tons of scrap steel, and thus strongly supported housing construction in the countryside and the production of minor commodities in the light industry. At the same time, it has given jobs to more than 30,000 unemployed persons and paid the state 120 million yuan in taxes.

Practice in the past 3 years has proved that compared with the direct importation of rolled steel and scrap steel, importing discarded ships for dismantling can reduce our foreign currency spending by approximately one-third. The policy decision made by the leading State Council comrades on developing the ship dismantling industry in China is a correct one. This is a newly emerging industry which is beneficial to the state and to the people.

Good Opportunity Provided for Development of Ship Dismantling Industry in China by Recession in International Shipping

A decisive factor in the development of ship dismantling industry is the excessive capacity of tankers in the world. In the past decade or more, owing to huge increases in capital outlay, there has been greatly excessive capacity. The international shipping market conditions continued to deteriorate and some large shipping companies have gone bankrupt. According to statistics on world shipping, in 1952, there were in the world 31,461

merchant ships totaling 90.18 million gwt, and in 1982, 75,151 merchant ships totaling 268.74 million gwt. Although capacity was trebled, the available load was only slightly increased. In 1985, therefore, the total deadweight tonnage of ships left idle reached 64 million gwt, of which more than 50 million were tankers.

Furthermore, in the past several years, the international organization concerned set up certain new rules and standards to ensure shipping safety and to prevent ocean pollution. These rules and standards also speeded up the disposal of outdated ships. For example, the international pact on human safety at sea, formulated in 1978 stipulated that all tankers must be equipped with an inertia gas system. In 1981, however, 77 percent of the tankers with a deadweight tonnage of 125,000-170,000 and 90-98 percent of those with a deadweight tonnage of 225,000-300,000 were still not so equipped. The international pact for the prevention of ocean pollution by ships further stipulated that beginning October 2, 1983, tankers with a deadweight tonnage of more than 40,000 must be equipped with isolated ballast tanks and a crude oil cleaning system or clean ballast water tanks. Thus each tanker had to spend about \$2 million, and many old ships had to be written off because their remaining service lives were not long enough to compensate this newly increased investment.

Finally, after the Suez Canal was widened and the pipeline between the Persian Gulf and the Red Sea was laid, the crude oil bound for Europe need no longer go around Cape of Good Hope, idling many large tankers, and greatly reducing demand for them.

The challenge from the new technological revolution has also greatly reduced the ships' service life, and their updating is being accelerated. The ships for dismantling are mostly tankers, and their service life was reduced from 21.3 years in 1972 to 18.3 years in 1982. More resources are now available to the scrap ship market.

What deserves our attention is that along with the recession in world shipping and the increase in idle ships, ship dismantling industry has flourished in the world, and the Far East, south Asia and south Europe, in particular, have gradually become ship dismantling centers. In 1984, Taiwan and South Korea dismantled 56 percent and 26 percent respectively of the world's idle or improvised tankers. In south Asia, the ship dismantling industry is also thriving in India, Pakistan and Bangladesh. Greece, Turkey, Yugoslavia, Italy and Spain in south Europe are mainly engaged in dismantling their own ships. However, since the prices of scrap ships in this region are 20-40 percent below that of the Far East, we may buy some of the ships at offshore prices to increase the economic benefits for the ship dismantling industry.

China's Unique Objective Conditions for Ship Dismantling Industry

Favorable natural conditions are the basic requirement for developing ship dismantling industry. China has a long coastline, beginning from Dalian in Liaodong Peninsula in the north, passing through Bohai, Huanghai, and Donghai, and ending in Nanhai at Beihai and Fangcheng harbor of Guangxi. There are many deep-water havens with spacious beaches and good transportation

facilities suitable for the establishment of ship dismantling yards. The Liaodong Peninsula, Shandong Peninsula, Zhoushan Islands, Zhujiang Delta, and the regions at the lower reaches of the Chang Jiang have, in particular, become the areas for the intensive development of the ship dismantling industry.

Rich labor resources are also an important condition for the development of this industry. Ship dismantling has to be carried out in the open sea, and some disassembling and moving jobs have to be performed high above the deck, under poor conditions, with great physical exertion, and at great risks. The workers of some developed capitalist countries are generally unwilling to do these jobs, and that is why the ship dismantling industry is flourishing mostly in the developing countries. China has rich labor resources and the people can endure hardship. In the past 3 years, this industry has provided job opportunities for a large number of unemployed people. Now let us look at the cost of ship dismantling. In Japan and some South European countries, the cost for dismantling each ton of scrapped ship is \$30-50, of which about 40 percent are wages. In China, the cost is about 40-50 yuan renminbi, of which, only 15-20 percent are wages. Thus we can see that although the time required in China is a little longer and the consumption is a little higher, the cost of ship dismantling is generally half to two-thirds lower than in developed countries because of lower wages.

Furthermore, there is a great demand for rolled steel and scrap steel in the domestic market, and this demand can also be a strong impetus to the development of the ship dismantling industry.

Several Macroeconomic Problems To Be Studied and Solved in Developing China's Ship Dismantling Industry

First, there must be a rational layout and an appropriate production scale. The ship dismantling yards have made fairly good profits in the past several years, thanks to the state's preferential treatment in the way of tax exemption and subsidies, and to the scarcity of rolled steel, price increases, and other factors. The regions along the coast and the rivers and some departments have vied with one another in setting up ship dismantling yards. According to a survey, there are now more than 50 such yards in Dalian alone, and more may be forthcoming. Last year, therefore, the State Economic Commission decided to conduct immediate readjustments and consolidation of the existing ship dismantling yards, and to work out their rational distribution in the north, south, along the coast and along the rivers (in the inland) after an overall consideration of the facilities for importing ships, the transportation of the dismantled materials, and the regions where they will be used. A ship dismantling base will be set up step by step in China along with the establishment of a number of key enterprises for ship dismantling throughout the country. The scale of production in ship dismantling, or the appropriate annual capacity of ship dismantling to be planned for, should be studied on the basis of three factors: first, the amount of scrap steel from dismantled ships and of rolled steel required on the domestic market; second, the state's financial resources, especially the ability to pay in foreign exchange; and third, the characteristics of production in the ship dismantling industry. These characteristics are attributed to the fact that production of

this type depends mainly on the source of scrapped ships. The productive capacity must be flexible so that it can be stretched a little to handle a greater workload or reduced a little to maintain production.

Second, we must treat the increase in the competitive power and the improvement of economic results of the ship dismantling industry as an important factor in its development. In China's ship dismantling industry, the problems of long dismantling periods, high consumption and low utilization of recovered materials are very common. In dismantling a 5,000-ton ship, for example, we generally need 2-4 months, whereas South Korea needs only 1 month. For dismantling each ton, we consume 1.7-2 cylinders of oxygen, 10-12 kg of calcium carbide and 1.8-2 man/days, whereas Japan generally consumes 0.8 cylinders of oxygen, 7 kg of calcium carbide and 0.5 man/day. To improve the economic results in this industry, we must pay great attention to management, to technical advancement, and to the intensive processing and comprehensive utilization of the dismantled materials, besides organizing unified action in buying scrap ships from abroad to reduce our expenses in the purchase. We should also encourage competition. In the ship dismantling industry, there will be competition in three different ways: first, competition with the same industry of other countries in prices for the purchase of ships and in benefits from the dismantling; second, competition between different ship dismantling enterprises in the country in the speed and quality of dismantling, the quality of materials delivered, and the regular payment of installments for the ships; and third, competition with other units--which import rolled steel and scrap steel--for better economic results, so that it would be more worthwhile to dismantle ships than to import rolled steel and scrap steel directly in view of the foreign exchange saved and the larger amount of materials obtained. The ship dismantling industry must compete in these ways to survive.

Third, environmental protection in ship dismantling is a major issue for the survival and development of this industry and a very important matter concerning the welfare of the future generations. With the support and assistance of the State Environmental Protection Bureau, the China Ship Dismantling Corporation is regarding this work as an important aspect of the consolidation of ship dismantling yards. Pollution from ship dismantling is now basically controlled, and great success has been achieved in environmental protection. The state has stipulated that no ship dismantling yards can be set up in scenic spots or places with historical relics; that education in the environmental protection law and the rules and regulations for the prevention of sea pollution by ships should be carried in earnest; that all ship dismantling yards should be equipped with oil-water separators, oil-prevention cables and other necessary devices; and that a set of rules and regulations be formulated for the prevention and monitoring of pollution so that the pollution from ship dismantling could be confined strictly within the limits set up by the state.

On the whole, China's ship dismantling industry has already embarked on the path of regular development, despite its late start. We must now seize the opportunity to take full advantage of China's strong points in this industry and work out practical plans for this industry to develop in a more healthy way.

9411

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INDUSTRY

GUANGDONG'S INDUSTRIAL GROWTH RATE DISCUSSED

Guangzhou KALFANG [OPEN POLICY] in Chinese No 5, 8 May 86 pp 5-8

[Article by Tang Weiying [3282 4850 5391], Li Lici [2621 4539 6337], and Zhang Fayuan [1728 4099 3293]: "Guangdong Should Aim for Moderate Industrial Growth"]

[Text] There is a good deal of public interest in the rate of industrial growth in Guangdong. People wonder, on the one hand, whether the rapid growth in the Sixth 5-Year Plan was normal and, on the other, what will constitute a reasonable rate in the Seventh 5-Year Plan. Based on our understanding of the situation, we put forward the following tentative views for public consideration.

An Analysis of the Rate of Industrial Growth in the Sixth 5-Year Plan

Because it firmly adhered to the party's line, policies, and principles since the 3d Plenary Session of the 11th CCP Central Committee, carried out reforms, pursued the open door policy, and invigorated the economy, Guangdong experienced a boom in industry and transportation during the Sixth 5-Year Plan unknown since the founding of the PRC. Industrial output value climbed steadily and continuously across the board, rising 20 percent in 1984 over 1983. It was valued at 46.086 billion yuan in 1985, a jump of 25.6 percent compared with 1984 and double 1980's 22.46 billion yuan. For 6 consecutive years, Guangdong chalked up a faster rate of industrial growth than the national average. During the Sixth 5-Year Plan, net increase in industrial output value amounted to 23.64 billion yuan, which translated into an average annual growth rate of 15.5 percent, topping all growth rates achieved in the previous 5-year plans.

The growth in the gross value of industrial output is accounted for by the following:

1. a surging collective industrial sector. The industrial output value of Guangdong's collective enterprises totalled 15.577 billion yuan in 1985, 9.053 billion more than in 1980, or 19 percent annually on the average. Collective enterprises constituted 33.8 percent of the province's gross value of industrial output in 1985, up from 29.1 percent in 1980.

2. steady growth in state-owned industry. The industrial output value of state-owned enterprises in Guangdong amounted to 27.68 billion yuan in 1985, 12.23 billion yuan more than in 1980, for an average annual increase rate of 12.4 percent. The annual breakdown was 9.97, 7.63, 11.53, 14.27, and 18.37 percent in 1981, 1982, 1983, 1984, and 1985, respectively, picking up steam year after year.

3. across-the-board growth of which every industry partook. Light industry recorded an output value of 30.061 billion yuan in 1985, up 118.77 percent over 1980, with a net increase of 16.32 billion yuan. Corresponding figures for heavy industry were 15.558 billion yuan, 78 percent and 6.861 billion yuan, respectively.

Let's look at the expansion sector by sector and industry by industry. In the 1980-85 period, the machine building industry grew 25.7 percent annually on the average; the textile industry, 19.5 percent; and building materials industry, 16.4 percent. Turning to the product mix, daily consumer goods, especially durable consumer goods, enjoyed a phenomenal growth. From 1980 through 1985, refrigerator production shot up 9,900 percent; cassette recorders, 2,060 percent; washing machines, 2,500 percent; electric fans, 1,200 percent. During the same period, cement production rose 179 percent, while that of hand-held tractors expanded 219 percent.

Directly contributing to rapid industrial growth in Guangdong are the following reasons:

1. An increase in production capacity resulting from rising capital spending in industry. For a long time in the past, owing to a number of reasons including the emphasis on class struggle and the policy of national isolation, Guangdong was not a major recipient of capital expenditures allocated by the state. In the five 5-year plans before 1980, only a meager amount of investments was earmarked for Guangdong. By 1980, the fixed assets of all state-owned enterprises in the province had an original price tag of only 10.04 billion yuan, or 6.9 billion yuan net. Since the 3d Plenary Session of the 11th CCP Central Committee, particularly since the central government authorized Guangdong to implement special policies and flexible measures, the province has entered a crucial development stage, with municipalities, prefectures, and industries up and down the province using various ways to raise funds, which meant increased capital spending by industry and other sectors. During 1981-84, the province set aside 4.705 billion yuan, or 27 percent of all infrastructural investments, to finance 3,049 capital projects in industry. The focuses of this investment drive were the power industry, 981 million yuan; petroleum industry, 484 million yuan; chemical industry, 452 million yuan; machine-building industry, 418 million yuan (of which 231 million went to the electronic industry); light and textile industries, 418 million yuan; food industry, 837 million yuan (including 644 million yuan for the sugar industry); and building materials industry, 322 million yuan. During the Sixth 5-Year Plan, there was a net increase of 3.2 billion yuan in fixed assets in the province. If we follow the method of estimate used by the State Statistical Bureau and assume that one hundred yuan worth of fixed

assets produces 180 yuan worth of output, taking into account Guangdong's high costs of production, about 24 percent of the net increase in output value could be attributed to the new fixed assets.

2. The modernization of old enterprises and the push for technical modernization. During the Sixth 5-Year Plan, 6,877 technical modernization projects (including a number of unfinished holdover projects) went under way in the province's industrial and transportation sectors, involving a total of 8.94 billion yuan, of which \$1.128 billion were in foreign exchange. The thrust of modernization was directed at such industries as light, textiles, electrical machinery, energy, and raw materials; at the improvement of product quality, and at new product development. All enterprises whose modernization efforts were incorporated into the state or provincial plans could become key enterprises with an advanced technical level and producing good-quality products. Enterprise modernization has not only had a tremendous impact on immediate production, but also provided development with fresh momentum.

3. Adjustments and changes in the industrial structure. Even as it carried out the eight-character principle on how to restructure the national economy, Guangdong has taken pains to adjust its industrial structure and product mix in the light of provincial realities, fully exploiting its strengths and avoiding its weaknesses. The share of leading industries, such as power, petroleum, chemical, machinery, building materials, food, and textiles, of the province's gross value of industrial output rose to 76 percent in 1984, up from 54 percent in 1981, and made further gains in 1985. This increase in output value was due to structural adjustments and efforts to tap the potential of enterprises as well as additional capital spending and modernization. It accounted for about 50 percent of the net increase in the province's gross value of industrial output.

These are the major reasons for the sustained rapid growth enjoyed by Guangdong industry. They have done much to increase the production capacity of neglected industries, exploit the strength of the light and textile industries, make enterprises more competitive, and improve the key proportionate relations in the provincial economy. During the Sixth 5-Year Plan, not only did industry grow apace, but economic benefits also improved substantially. State-owned industrial enterprises in the budget realized a 52.26 percent increase in output value in 1985 compared with 1980, while profits and earnings from sales soared 50.83 and 61.26 percent, respectively, thus achieving the "three simultaneous increases." Meanwhile, the quality of industrial products rose about 85 percent. Over 1,561 kinds of products won quality prizes from the national government, the ministries, and the province, and more than 10,000 new products were manufactured and put into production on a trial basis. Consumption of energy and raw materials dropped: From 1980 through 1985, energy consumption per 100 million yuan worth of industrial output shrank 27.5 percent to 36,400 tons of standard coal, saving 4 million tons of standard coal in all. Industrial profits and taxes paid to the state also rose year after year, with the 5-year total topping 17 billion yuan, providing a reliable revenue source essential to the enrichment of the coffers of the province.

It is clear from the above analysis that the rapid industrial growth in the Sixth 5-Year Plan was based on a rising production capacity and economic efficiency and was therefore normal.

Certainly, there are problems even in the midst of progress which cannot be ignored, notably:

1. Over-investment in fixed assets, the loss of control over credit and foreign exchange for a time after the fourth quarter of 1984, and the fragmentation of the power to examine and approve imports have given rise to new problems in industrial planning and commodity allocation. The investment explosion in fixed assets caused consumption funds to expand excessively and led to a sharp rise in consumption demand. During the Sixth 5-Year Plan, total investments in social fixed assets in Guangdong are expected to hit 55.48 billion yuan, up 349 percent over the Fifth 5-Year Plan. Of this, 1984 accounted for 13.433 billion yuan, 3.38 billion more than in 1983. Assuming that about 40 percent of each yuan invested end up as consumption funds, the Sixth 5-Year Plan saw such funds expand by 211.9 billion yuan. The result was higher prices for means of production and means of consumption, which, in turn, meant rising production costs that production enterprises had difficulty absorbing.

2. Uneven development between municipalities, prefectures, and industries. According to 1984 statistics, the gross value of industrial output of the 47 mountainous counties constituted only 9 percent of the provincial total, entirely incommensurate with their area and population. Because of gross historical neglect, energy and transportation fall far short of meeting the actual demand. The disparity between electricity supply and demand, in particular, has become a yawning gap in recent years. Processing industries are growing by leaps and bounds, but Guangdong's inability to satisfy its own demand for raw materials will constrain its industrial growth.

3. Some enterprises are still poorly managed and obsoletely equipped. For them, technical modernization remains a daunting task. Owing to mismanagement, a number of enterprises are unable to adapt to changes, turn out inferior products, consume materials heavily, and lose money perennially. Disregarding social benefits, a minority of enterprises go after profits exclusively. Some are so unscrupulous that they even pass off fakes as the real thing and produce shoddy merchandise, resulting in unjustifiable waste.

Forecasting The Rate Of Industrial Growth In Seventh 5-Year Plan

On the basis of rising efficiency, Guangdong industry achieved a respectable rate of growth in the Sixth 5-Year Plan. What would be a reasonable rate of growth that we should aim for in the Seventh 5-Year Plan? To answer this question, we should combine objective needs with actual possibilities and look at the matter analytically.

About objective needs. First, we must maintain a basic equilibrium between total social demand and total social supply. This is an important principle we must observe when we plan industrial production and even the development of

the overall economy. Given the present situation in which total social demand outstrips supply, we must boost production, particularly that of industrial products much sought-after in the market, as well as taking measures to check total demand. Second, Guangdong is a province which carries out special policies and flexible measures. The central government demands that Guangdong move one step ahead of the others as far as reform and the open door policy are concerned and serve as a pacesetter in the four modernizations. Third, Guangdong industry expanded 15 percent annually during the Sixth 5-Year Plan, consistently behind such advanced provinces as Zhejiang and Jiangsu. In view of the demand that we do better in the Seventh 5-Year Plan than the Sixth, industrial growth must be maintained at a fairly brisk pace.

What circumstances bode well for brisk industrial development? What are the possibilities? To begin with, as a result of adjustment, restructuring, reform, and invigoration in the previous 5 years, we now boast a host of competitive and economically efficient enterprises and a range of products with a solid international reputation. Second, the 10 billion yuan we invested in capital projects and technical modernization in the Sixth 5-Year Plan have significantly boosted our production capacity. Besides, the technical modernization of existing enterprises remains a priority during the Seventh 5-Year Plan, providing a shot in the arm for technical progress so crucial to keeping up industrial growth. Third, energy and transportation, the weak links in our economic chain, are expected to be strengthened. Generating sets with a capacity of over 2 million kv will be built during the Seventh 5-Year Plan. After they go into operation starting next spring, electricity shortages will ease gradually, something that can only benefit the entire national economy. Fourth, we must make it one of our major concerns to step up enterprise management with extensive efforts to "be innovative, make the grade, and improve quality." This will provide a tremendous driving force for fast industrial growth.

In accordance with the principle of seeking truth from realities, we must take into account both needs and possibilities in determining the rate of industrial growth. We must not upset the scale of investments in fixed assets, credit, and consumption funds. Nor can we spend foreign exchange recklessly. On the other hand, we must energetically overcome difficulties and create a favorable climate. After repeated deliberations, the provincial government has decided that industry should grow 10 percent in 1986 in the province as a whole. This is a right thing to do if we are to maintain an appropriate growth rate. We propose that industrial expansion in the province should neither fall below 10 percent nor exceed 15 percent. In deciding their own rate, all municipalities, prefectures, and industries must base themselves on realities. There should be no attempt to impose uniformity arbitrarily. Nor should units try to "keep up with the Joneses."

12581

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INDUSTRY

NEW DEVELOPMENT OF SHAANXI'S METALLURGICAL INDUSTRY

Xian SHAANXI RIBAO in Chinese 22 Mar 86 p 1

[Article by Cao Shangyu [2580 1424 2509]: "There Will Be New Developments in Shaanxi's Metallurgical Industry"]

[Text] According to information received at a recent provincial conference on the metallurgical industry, there will be some new developments in this industry during the Seventh 5-Year Plan.

The average growth rate in Shaanxi's metallurgical industry during the Sixth 5-Year Plan was 10.2 percent each year. This marked the beginning of steady growth. However, this industry was still a weak link. During the Seventh 5-Year Plan, the average growth rate will be 12 percent each year so that in 1990, total output value will reach 650 million yuan; annual steel output will reach 500,000 tons; that of rolled steel, 400,000 tons; and that of pig iron, 400,000 tons, an increase of 45.8 percent, 64.9 percent, and 99 percent respectively over the end of the Seventh 5-Year Plan. Some existing enterprises, such as Shaanxi Gang, Xi Gang, Shaanxi Precision Alloy Plant, and Hancheng Foundry will complete, step by step, a number of projects in technical transformation including the expansion of a 20-ton electric furnaces, building 30-ton electric furnaces and continuous casting machines, increasing the capacity of 100 cubic meter blast furnaces, importing 4-roller and 20-roller presses, and setting up 300,000-ton coal dressing workshops in order to further increase the capacity for iron and steel output and to improve the quality of products. At the same time, in accordance with the decision of the provincial government, the building of Hanjiang Iron and Steel Plant, a key enterprise, will be resumed. The first project to be completed during the Seventh 5-Year plan is for the extraction and selection of iron ores in Yangjiaba Mine with a capacity of 800,000 tons for both extraction and selection. This year, 10 million yuan has been invested in the provincial projects. A coke and gas plant will also be built in Hanyang with an annual capacity of 350,000 tons. This plant will not only produce coke for the steel industry, but also supply 200,000 cubic meters of gas to the city each day.

9411

CSO: 4006/987

INDUSTRY

SHENYANG'S OLD ENTERPRISES COMPLETELY TRANSFORMED

Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 29, 21 Jul 86 p 17

[Article by Jiang Min [1203 2404] and Zhao Xueshan [6392 1331 1472]:
"Shenyang's Old Enterprises Are Completely Transformed"]

[Text] Adoption of the general policy of opening the country to the outside world and invigorating China's domestic economy has enabled Shenyang, the famous heavy industrial base, to undergo new developments. No longer is Shenyang carrying out an extensive development policy of launching new projects and expanding old ones behind closed doors. Instead, it is now paying attention to the transformation of traditional industries with advanced technology and equipment in an effort to follow the road of intensive development.

Over the past several years, Shenyang spent more than 310 million yuan to import from abroad 560 pieces of advanced technology in addition to energetically adopting advanced domestic technologies. The industrial departments of the city have invested 2.58 billion yuan in technical improvements, a 13-fold increase over the Fifth 5-Year Plan (from 1976 to 1980). By now, 3,253 projects have been built and put into operation.

Major Equipment Updated

Shenyang is a comprehensive industrial city with machine-building as its principal industry and other industries, including those of metallurgy, chemical engineering, pharmaceuticals, light industry, textiles, building materials, electronics, and aviation. There are more than 3,400 industrial enterprises. Because most of these enterprises were built in the 1930's, their equipment, technologies, and products are obviously outdated. This seriously affected their production, and their transformation is urgently needed.

According to the city's statistics on 150 key enterprises to be transformed in 20 major occupational fields, 13,771 sets of major equipment of international standards of the late 1970's and the early 1980's have been either renovated or acquired. Among these are 2,352 imported sets, and 46 production lines for dry cross-linking power cables, high-pressure hoses with steel webs, air conditioners, temperature control devices, computers of M68 series, high fidelity sound systems, color TV sets, half-wave watt setting and coating.

Some key trades have imported and adopted new techniques of advanced international levels for major reforms in the basic techniques. The machine tool trade has adopted the MZA high-precision gear grinders which can upgrade the precision by two levels, and raise the proportion of first-grade products from 30 percent to more than 80 percent. . The No 1 and the No 3 Machine Tool Plant, the Water Pump Plant, the Casting Plant, and the Heavy Machinery Plant have extensively adopted a new foreign method using resin crystals and are now able to increase the luster of the casting surface with the quality up to international standards. The electronic trade has adopted the wave)crest welding methods from some foreign country and this method not only increases the efficiency but also raised the up-to-standard rate of printed circuit boards from 85 percent to 100 percent. The chemical trade has adopted the new triple*efficiency retrograde evaporation technique in place of the double)efficiency forward flow evaporation technique and thereby save a huge quantity of energy.

At the same time, with the imported test instruments of advanced international levels, Shenyang has established 16 key test centers at the national, regional and trade levels. Among them are the largest water pump testing station in Asia, the national monitoring center for hardware products in daily use, the Northeast Leather Testing Station, and so forth. The Hushitai High Voltage Experiment Yard of the Northeastern Testing Station for Power Transmission and Transformation built last year can not only meet the requirements for testing 500,000 volt transmission and transformation, but also conduct experiments of 100,000-ampere open circuits. It can also conduct routine experiments for low voltage electrical appliances and antiexplosion electrical devices.

Mechanical and Electrical Products To Catch Up with International Standards

Shenyang's mechanical and electrical products have been enjoying national fame. In the past several years, Shenyang has supplied 11 sets of heavy power transmission and transformation equipment for the Gezhouba and Longyangxia hydropower stations, the Yuanbaoshan power generation project, the Jinjing 500,000 volt power transmission and transformation project, and the Jing-Qin double track electrification project. It has also supplied seven auxiliary items for eight large coal mines. In 1985 alone, the sales of products used in key construction projects in various parts of the country amounted to 495.8 million yuan, 66 percent of the total sales of mechanical products.

The large transformers of more than 8,000 kva produced by Shenyang Transformer Plant are supporting not only the complete sets of power transmission and transformation equipment for the superhigh voltage lines in Yuanbaoshan, Jinzhou, Liaoyang and Haicheng in the northeastern power grid, but also 70 other key projects including the second-stage and third-stage expansions of the Shentou Power Plant in Shanxi and the first-stage engineering project of Baoshan Iron and Steel Complex in Shanghai. The Shenyang Power Cable Plant is supplying large quantities of stranded aluminum cables with steel cores, power cables and power control cables to 44 key construction projects including the Tiefs Mine, the Liaohe Oilfield, and the Baishan Hydropower Station in Jilin. The Shenyang Water Pump Plant has supplied nearly 10,000 pumps to the power generating stations in many sectors of the national economy including

petroleum industry, chemical industry, mining and communications. In the past 5 years, this plant sold 5,200 sets of high-efficiency energy-saving water pumps. The efficiency of these pumps has been raised from 69 percent to 80 percent, and each year, they helped save 800 million kwh of electricity or 80 million yuan. The Shenyang High-voltage Switch Plant has trial manufactured and developed 32 new products for the state's key projects. These new products include power generator circuit breakers, 500,000-volt isolated switches, and air circuit breakers, all up to the advanced international levels. In the past several years, this plant supplied more than 1,000 set of new products to equip the Gezhouba Hydropower Plant in the Chang Jiang, the Baishan Hydropower Plant, and some electrified railways. It has also supported the 500,000-volt power transmission and transformation projects for the power lines in Yuanbaoshan, Jinzhou, Liaoyang and Haicheng of the Northeast and between Datong and Beijing. For the projects of this type in Yuanbaoshan, Jinzhou, Liaoyang and Haicheng alone, the plant has supplied 196 sets of isolated switches of 220,000-500,000 volt and KW5-500 air circuit breakers.

Future Development Goals

As a key city during the Seventh 5-Year Plan period, Shenyang has set three goals in its economic and social development strategy in the following order:

First, Shenyang is to become a versatile economic center in the northeastern region. It will broaden its economic development plans to include the central part of Liaoning as well as the entire northeast region and devote its efforts to to increasing and improving the economy and services of this region and becoming a versatile economic center for the northeast in terms of foreign trade, finance, transportation and communications, technology, information, and labor..

Second, Shenyang is to become a leading city in China's modernization program. Focusing Shenyang will concentrate on the advancement of the machine industry and try to meet the world's advanced standards. It will absorb the achievements of the world technological revolution to improve the ability of Shenyang industries in creating new things. It will try to become an important gateway to the full use of foreign capital and imported advanced technologies and furthermore, disseminate the things it has absorbed to the rest of the country in clear stages.

Third, it will join the international economic system and become an international city in the Asia-Pacific Region. It will consciously take part in projects calling for international economic and technical cooperation. and continuously expand its foreign trade. It will strive to become by the end of this century one of the modern industrial cities representing China's higher economic and technical standards and a city that can play a definite role and become a strong influence in the affairs of the Asia-Pacific region.

9411

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SMALL-SCALE ENTERPRISES

SUCCESS OF LEADING TOWNSHIP ENTERPRISES ANALYZED

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 11 Jun 86 p 1

[Text] In 1985, 729 counties in China, or 26 percent of all county-level units, had township and town enterprises with a gross output value topping 100 million yuan. Most of these counties are concentrated in the economically developed regions. Between them, east China and south central China accounted for 467 counties, or 64 percent of all 100-million-yuan counties. The gross output value of the 729 counties amounted to 199.9 billion yuan, 73 percent of the total output value of all township and town enterprises in the nation.

Wuxi County, Jiangsu, where enterprises grossed 3.47 billion yuan, topped the list of counties with 100-million-yuan township and town enterprises. It was followed by Shaoxing County, Zhejiang, with 2.62 billion yuan; Jiangyin County, 2.53 billion yuan; Shazhou County, 2.4 billion yuan; Wujin County, 2.36 billion yuan; and Changshu County, 2.22 billion yuan. The last four counties are all in Jiangsu Province. In addition, statistics collected in six provinces and one municipality show that township and town enterprises in 73 townships have output value in excess of 100 million yuan. Of the 73 townships, Jiangsu accounts for 55; Shandong, 7; Guangzhou, 6; Henan, 3; Hebei, 1 and Shenxi, 1. The township with the highest output value is Qianzhou in Wuxi County, with 250 million yuan, followed by Ninghai Town in Mouping County, Shandong, with 230 million yuan.

Common to all these places are their reasons for success: They have upgraded product quality, mastered technology, and come to grips with management in order to improve economic efficiency. Township and town enterprises in Shazhou County say it well, "Enterprises compete on the strength of their product quality. To produce quality products, they need technology, which, in turn, depends on skilled personnel." Jiaomu Electrical Appliance Plant in that county follows the "three haves and three responsibilities" system, that is, they have an established organizational setup and personnel, a rigorous management system, and a set of testing procedures, and holds itself accountable for "quantity, quality, and consumption." As a result, the approval rate of its products has gone up from 97 percent in 1984 to 98.5 percent. Three of its products were rated first, third, and fourth, respectively, among similar types of products in the nation. To improve the quality of its enterprises, the municipality of Wuxi has set aside 70 percent of its management funds to finance professional training and offered 2

training courses for the achievement of excellence for 128 management cadres last July and August. So far 9 products from the county have achieved excellence at the ministry or provincial level, and 25 products have won ministry or provincial scientific achievement awards and outstanding new product awards. The No 2 Undergarments Knitting Mill in Wuxi County imports to export. It imported from abroad over 140 pieces of advanced equipment and has used them to manufacture silk undergarments, polyester-cotton T-shirts, and embroidered garments for export to 26 countries and regions, including the US, the Federal Republic of Germany, and Japan, earning a total of \$4.9 million in foreign exchange last year. Dongfang Electric Watch Factory in Enping County, Guangdong, has adopted advanced computer welding technology to double its output and upgrade the quality of its products to match the best in the world. Its products, all exports, have been extremely well received by foreign businessmen.

12581

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CONSTRUCTION

ISSUES CONCERNING URBAN, RURAL CONSTRUCTION DISCUSSED

Beijing JIANZHU [BUILDING CONSTRUCTION] in Chinese No 4, 7 Apr 86 pp 2-4

[Summary of Speech by Xiao Tong [5135 2717] at Yunnan Provincial Conference on Urban and Rural Construction and Environmental Protection: "Several Questions Concerning Urban, Rural Construction, and the Construction Trade"]

[Text] Today, in the capacity of a construction department adviser, I would like to present my views on certain questions concerning urban and rural construction and the construction trade.

I. Question of the Role of Urban and Rural Construction and Environmental Protection in Social Development

Comrade Wan Li [5502 6849] had several meetings with the mayors who were students of research classes. On each occasion, he urged the mayors to devote their energy to city construction and management. He said that although the time-honored practice of mayors managing plants and plants managing society could not be changed overnight, some changes should still be made step by step in the future. The key factor is that the mayors must exercise their main function in city construction and management and in the improvement of urban and rural construction and environmental protection.

Urban and rural construction must meet the requirements of the four modernizations. In developing a high level of material and spiritual civilization, I believe that urban and rural construction should play a very important role.

The situation of urban and rural construction has been really fine since the Third Plenum of the 11th CPC Central Committee. Judging by the standards of modern cities, however, our cities are still lagging far behind. We are now in the age of "upgrading and updating," and must introduce some modern and advanced supportive facilities to transform our backward cities and to give them a new appearance. The same theory applies to rural construction. During

this transitional process, the comrades in charge of urban and rural construction must bear a historic responsibility.

How is our situation now? I believe that although people generally are beginning to recognize the problem in city planning, city management is still inadequate because our work in this respect is backward. Soon after the completion of a small area, the spontaneous forces would again assert themselves, and buildings in disarray will become an eyesore. In city planning and city construction, the aesthetic element of individual buildings or groups of buildings is rarely appreciated, and little consideration is given to the arrangement of blocks. Interior design also receives little attention in most building projects; its importance is recognized only for some buildings (for tourists, for example). That is why we are so backward in indoor fixtures. Some comrades, obsessed with the old conventions are not aware of this requirement even now. We must note that in some areas which are relatively developed economically, the residents have begun to express their desire for the improvement of indoor fixtures. Thus our work is lagging behind the people's requirements. As for the question of environmental design, which also applies to housing density, courtyards, tree-planting, sculpture, etc., and concerns not only the individual beauty, but also the overall beauty of the structures, we are even more backward.

Our mayors, especially those comrades in charge of urban and rural construction, must note this trend. Even though our progress in practice may be only gradual, we must still plan for the development carefully so that we will not leave over these difficult problems to our offsprings. We should complete several jobs each year according to plan, have less empty talks, and do more real work. We must have some strategic foresight in urban construction, and our work must conform to the social development plan. Urban construction is a task which lasts hundreds or even thousands of years. We must consider all aspects of the situation instead of the immediate benefits. Construction serves as a milestone of the age. We must be aware of the important role of urban and rural construction, pay attention to its development strategy, implement this strategy step by step, and prove our worth for this historical task through our dedication and sense of responsibility in making our urban construction and management a success.

II. Question of General Development

In urban development, all countries in the world are now confronted with these problems: first, transportation; second, population growth and housing needs; and third, environmental pollution in industrial development. The same problems exist in China's urban construction.

The problem of urban transportation has become increasingly serious in urban development. The infrastructure of an entire city, including highways, bridges, water supply, water drainage, flood prevention, gas supply and so forth, is also a serious problem in our urban development. Some people said that we have this problem simply because of our long negligence in the past. The element of "negligence" did exist, but the main cause is the pressure brought forth by urban development. We have done a great deal of work in trying to solve the housing problem, but will have to spend 10 to 20 years in

accomplishing a real solution. In the matter of housing, we must have not only a quantitative concept (concerning the average number of square meters of floorspace for each person), but also a qualitative concept concerning the way to improve the quality of buildings as well as the way for future transformation. In other words, we must improve the facilities inside the houses. The problem of environmental protection is even more striking.

In urban and rural construction and environmental protection, there are the problems of "money" and "management." Many localities have complained that the infrastructure of cities are inadequate for urban development. The same problem has been emphasized in the the reserch classes run by the Ministry for mayors. In his speech, Comrade Li Peng [2621 7720] recommended the method used in Changzhou and also mentioned that in solving this problem, we first need money from the state. While the government should do more for the large infrastructural projects, the localities should also spend some of their own money on the projects too. Second, we must mobilize all the positive factors to increase our production and financial resources. I firmly believe in the principle of people's cities and people's construction.

As for urban transformation and housing construction, it is my opinion that the method of comprehensive development and housing commercialization should be adopted.

Comprehensive development is an important way to mobilize all positive factors for the transformation of the city's appearance. Practice has proved its advantages (1) in the systematic implementation of city plans (2) in land conservation and in working out a rational layout within an area; (3) in raising social funds and accelerating housing construction and city transformation; (4) in helping the users so that many building units can reduced their manpower and problems; (5), in substituting economic means for the former purely administrative means and in increasing the state's accumulation. The method of comprehensive development has become more and more popular, now that many localities throughout the country have benefited from it. The comprehensive development and the acceleration of housing commercialization were affirmed in the Proposition for the Seventh 5-Year Plan.

Comprehensive development is different from the development of ordinary enterprises and companies; it must rely on government support. In handling such problems as land requisition, demolition and relocation, construction layout, and the supplies of water, electricity and gas, we must count on strong government support and coordination. The leading comrades in all prefectures and cities should support this reform.

In the construction of cities and development of tourism, I have always been in favor of preserving and developing the scenic spots and cultural relics in order to make the cities more attractive. In city design and the preservation of cultural relics, we should, as I believe, "choosing some topic to play up," meaning that we should cull something from the cultural traditions in China's long history to be used in collaboration with urban construction in order that our urban and rural construction could aptly picture China as a civilized ancient country. In developing the cultural relics and scenic spots of

cities with some minor architectural embellishment, we can draw materials from the local myths, folklores or historical traditions. This is called "choosing some topic to play up." This is of great significance in promoting tourism by adding to the attractions of the scenic spots for sightseeing. The same idea, in my opinion, should be adopted for the minor architectural and sculptural embellishments in building city parks and transforming the cities. The comrades in charge of urban construction should know something about architecture and aesthetics. An Italian architect once said: "A doctor's incompetence may cause death; but an architect's incompetence may be a source of regret by humanity." Our city planners and builders should use beautiful structural landmarks to reflect our great epoch, and these landmarks should never be a source of regret for the future generations.

III. Question of Construction Trade

I will first talk a little about the matter of concept. The work of our ministry, whenever mentioned, would give rise to the "five major blocks," meaning, urban construction, rural construction, environmental protection, the construction trade and the mapping trade. These "blocks" refers mainly to our ministry's work as a category with no distinction between the work and the trade itself which are under different categories. If they are analyzed from a scientific point of view, I am of the opinion that the work as a category refers to urban and rural construction and environmental protection, while the construction trade is a branch of material production. Capital construction comes under the category of work, but not that of a trade. The construction trade represents the productive forces in urban and rural construction and capital construction.

What is a construction trade? It is a material production branch engaged in the production and reproduction of fixed assets. According to the international classification of trades, construction belongs to the second trade. The classification of trades in the national economy proclaimed by China (in December 1984) consists of 13 categories, and construction belongs to the fourth category and includes three major branches: (1) civil engineering, including the building of railways, highways, tunnels, bridges, dikes, telephone networks, wharves, airfields, playgrounds, factories, theaters, hotels, hospitals, stores, schools and residential houses; (2) the installation of equipment for railways and pipes, including the putting up of power lines, communication lines, the laying of petroleum pipes, natural gas pipes, gas pipes, and water pipes, and the installation of heating, hot water supply, and sewage drainage facilities; and (3) prospecting design trade including the independent prospecting design units established by various central and local business departments in charge, such as the design academies and branch academies and the prospecting companies. Our present confusion is mainly caused by the departmental demarcations which obliterate the boundaries between the categories of work and trades.

As a material production branch, the construction trade produces commodities. Design and construction work are merely a productive process, during which, the construction enterprises must be responsible for the final product according to the contract.

The construction trade must have a distinctive product concept. The basic function of this trade is to build house or other structures. Our responsibility for the product also means our responsibility to the people. We must supply to the people suitable, safe, economical, and aesthetic construction products. Some emphasis on aesthetic taste can be highly useful in enriching architectural creation and raising the standards of designs. In discussing the "Outline of Construction Technology" recently, the Ministry called for the implementation of the policy of suitability, safety, economy and good appearance as the main task in order to provide houses and facilities of various types for production in the society and for the people's livelihood in the urban and rural areas in addition to a pleasant spatial environment for the creation of social wealth and the accumulation of state funds. The question of good appearance is not only one of money; it is a crucial question of the ideology behind the methods of designing. Many localities have spent a great deal of money on construction but failed to achieve a good appearance. The supply of suitable, safe, economical and aesthetic construction products is a manifestation of responsibility to the people as well as the attainment of good economic results for the society.

A construction product is the composite result of many different factors. The question we raised on the final product is intended for the solution of the problems in various factors, including, first, the artistic level of designs; second, the guarantee for working smoothly; and third, continued updating and upgrading so that the materials and accessories used will be up to the required standards. The contracting enterprises must have a strict responsibility system throughout the duration of work in order to ensure the supply of suitable, safe, economical and aesthetic products.

The purpose of this year's reform in the construction trade is mainly to "consolidate, assimilate, supplement and perfect" the achievements in last year's reform. At the same time, it should prepare the way for some important steps to be taken in the reform during the next 2 years. The consolidation and management of the system of public bidding are the core issue, since they are the components of capital construction plans and of the system of contract responsibility adopted by the construction trade, and must, therefore, be well managed. In our trade, while stimulating the microeconomy, we must also carefully solve the problem of professional etiquette. We must strengthen the ideological-political work, set up strict responsibility systems, and actually solve the problems in this respect.

This year, we must continue to control the scale of capital construction investment, even though the main trend in the construction trade is now favorable. In the next several years, or possibly up to the turn of the century, the construction trade will continue to flourish for the following reasons: first, the need to strengthen the key projects; second, the appropriate development of industry and technical transformation; third, the people's housing requirements; and fourth, the strengthening of cultural and educational undertakings, in addition to various other social requirements. To meet all these requirements, we must carefully attend to the management, and particularly the further modernization of enterprises so that the construction trade will truly become a pillar of the national economy. We must never be contented with what we already have, and must strive to measure

up to the standards of this age. We must include construction and decoration in our meeting agenda. Our first requirement is to develop the designs for construction and fixtures, to expand the work force, and to achieve specialization. Second, we must produce more materials for construction and decoration. As for the development of construction and decoration materials, one way is for us to import advanced foreign technologies, such as the technologies for producing sanitary equipment, kitchen utensils, etc. Another way is for us to look for some of our national quintessence to be modernized. The general trend is now toward the development of materials for fixtures and decoration and the continued improvement of their quality. We must note this trend and train our personnel accordingly. We must accurately assess ourselves and discover our shortcomings through comparison with others before we can continue our progress.

The development of urban and rural construction requires a strong and competent construction trade. We must effectively reform our construction trade and improve its professional quality before we can better serve urban and rural construction as well as the people.

9411

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CONSTRUCTION

CONSOLIDATION OF CONSTRUCTION MARKET DISCUSSED

Beijing JIANZHU JINGJI [ARCHITECTURAL ECONOMY] in Chinese No 5, 18 May 86 pp 2-3

[Article by Fu Renzhiang [0256 0088 4545]: "Consolidate the Construction Market as an Impetus to the Reform in Construction Industry"]

[Text] Recently, many localities began, one after another, to consolidate the construction market and to correct certain unhealthy tendencies in contracting engineering projects. Some comrades do not clearly understand why the construction market has to be consolidated and what should be rectified during the consolidation. They are afraid that achievements already gained in reform may be affected and that further implementation of the reform program may be difficult. These fears are not totally unjustified. Realistic answers to these questions are very necessary for a unity of thinking and the success of the consolidation.

At present, probably no body can deny that China's construction market is developing from one of a sealed-off type to that of an open and competitive type; that departmental barriers and regional blockades have been removed; that the situation of separation between urban and rural areas, in which state-owned enterprises and urban collective construction enterprises operate exclusively in the cities while the rural construction teams can only operate locally, is drastically changing; and that a dynamic situation of competitions has already been created. A thriving construction market has brought some changes to construction enterprises. Instead of being responsible to higher authorities, they are now responsible to customers, and vertical relations of production have been replaced by horizontal ties for production of commodities. With great decisionmaking power in their business operations, enterprises have taken a gigantic step forward in becoming socialist commodity producers and independent dealers with sole responsibility for their own profits and losses. These are important indications of success in the reform of the construction industry. However, we cannot deny that although markets have been stimulated, management is lagging behind. Some out-dated rules have not been abolished and are still being enforced, and while the new rules and the legal system have not been perfected, certain willful violations have occurred. Some people have taken advantage of loopholes to make private gains at the expense of the state and the people under the guise of reform, and some ugly social phenomena have resurfaced to disturb the socialist market. These

two problems have different characteristics, and call for different solutions, but they must be dealt with seriously. Practice has shown that the extent of microeconomic flexibility is decided by macroeconomic power. We must not stress flexibility and neglect management, or substitute contracting for management. Nor can we interpret the opening of the construction market as unconditional and unrestricted free trade. In consolidating the construction market, we must strengthen macroeconomic management, perfect the legal system, and intensify the reform. Consolidation is a constructive and positive instead of a negative measure. If the reform of the construction industry starts early, problems will also be brought to light early; and if we can solve newly emerging problems in time, we will be able to advance more quickly under new conditions.

What has to be rectified during the consolidation? Some comrades regarded consolidation of the construction market as the consolidation of the construction industry and construction enterprises or some rectification in the reform. This is a misinterpretation. Consolidation of the construction market, consolidation of the construction industry, and the need to consolidate the construction industry are three different concepts, each with its own special meaning. Based on the requirements of the construction department, consolidation is necessary for the construction industry of only Beijing, and for the construction market of all other regions. Consolidation of the construction market means elimination of unhealthy tendencies and economic crimes occurring in the course of contracting. The primary purpose of consolidation is to ban unlicensed designs, unlicensed construction, and the practice of undertaking construction tasks without following regular procedures; and to detect and punish illegal activities of collusion between insiders and outsiders or between different administrative levels, of offering and accepting bribes to the detriment of the state and the consumers, selling business licenses, enterprise credentials and bank accounts, subcontracting for illegal gains, and such fraudulence as cheating on work and materials resulting in serious accidents, or the collapse of buildings because of poor quality work. The consolidation also aims at rectifying the practice of creating exorbitant charges by jacking up estimates with faked figures, blackmailing, and deliberately making things tough for others. Obviously, the substance of "banning" and "detecting and punishing" means dealing with the problems of law violations, while "rectifying" means dealing with the problems of business style in the execution of contracts. All these problems can disturb the construction market, jeopardize the reform, and threaten the continuing intensification of the reform. Therefore, the market must be consolidated. Consolidation will be mainly confined to the urban, but not the rural, construction market. The construction market is made up of buyers, sellers, and market control organs. Whoever creates these problems will become a target in the consolidation. The so-called buyers and sellers refer to parties with the status of legal entities in business transactions. Those without such a status cannot enter the construction market as direct contractors. The so-called market control organs at present refer mainly to those organizations serving both parties. If anyone in these organs engages in unhealthy tendencies for private gains by accepting bribes, or being partial to one party at the expense of the other, punishment will also be meted out to him. However, many of the present problems are brought about by our failure to practice the public bidding system extensively and seriously, by imperfect

management rules and weak management organs. There may also be people who can break away from these organ's control, though not opposing them. Serving as a go-between for both parties in some underground dealing or lending money at a usurious rate for private gains is a violation of law and will naturally be punished, while the culprits may be expelled from the socialist construction market.

Consolidation and reform are mutually complementary. Reform needs a favorable economic and social environment, and consolidation is precisely intended for clearing the way for the reform. If we allow unhealthy tendencies to spread unchecked, we will lose an excellent opportunity for reform and it will not be able to make further headway. In rectifying unhealthy tendencies, however, we would be allowing "leftist" ideas and traditional conventions to reassert themselves instead of seeking truth from facts and proceeding from realities if we base our judgement on personal feelings and do not distinguish between the two different types of contradictions; and if we do not clearly define the boundaries of different policies and even treat certain mistakes--which are unavoidable in the course of reform and innovation--as unhealthy tendencies, our action may nullify the achievements already made in the reform, and hinder the further implementation of the reform program. It is precisely for this reason that in consolidating the construction market, we must act in accordance with the spirit of the Party Central Committee of rectifying the party's work style. We must take a firm stand and have distinctive principles and policies. At present, many localities have worked out some rules and regulations in dealing with the questions concerning loopholes and unclear policy boundaries, such as what is general contract, subcontract and transferred contract? What are the services to be paid for? What are the "kickbacks" which should not be made? What are the mistakes and deviations in the reform? And what is meant by using tricks or force to make gains during the interim between the new and the old system? This shows the urgent need to strengthen macroeconomic control. According to the preliminary experiences in certain localities, however, two points are worth our attention: First, working out rules and regulations cannot substitute consolidation, because the prevention of future problems does not mean the nonexistence of old problems. We should persevere in uncovering the problems, study and solve them, and draw our lessons from experiences. This will help solve problems in ideology and in the systems and attain the goal of consolidation. Second, in working out rules and regulations, we must avoid being "overly rigid" and returning to the old path of "chaos immediately after flexibility and over-rigidity immediately after control." We cannot use the old rules again, which have been discredited in the reform, under the pretext of strengthening macroeconomic control; otherwise, even though things are "under control," it will be disadvantageous to the reform, and the consolidation will lose its significance. For example, some prefectures, cities and counties have made their own decision in indiscriminately demanding that all nonlocal design or construction teams entering and leaving their territories must possess letters of recommendation issued at the provincial level, and pay a heavy deposit in cash or credit instruments before being given any construction permit or being allowed to do any contracted work. This will not help in the development of the construction market of an open and competitive type. The relationship between consolidation and reform has not been streamlined. Reform is a historical process which cannot be reversed. In any type of work, including consolidation, we must pave the way for promotion of reform which is now the ultimate objective of the consolidation of the construction market.

CONSTRUCTION

WASTE IN CONSTRUCTION SITES DEPLORED

Beijing RENMIN RIBAO in Chinese 25 Jul 86 p 1

[Article by Xu Renzhong [1776 0085 0112]: "The Shocking Waste at Construction Sites Is a 'Common Malady' Requiring Urgent Solution"]

[Text] Beijing, 24 Jul, XINHUA SHE--The prosperity of the construction industry in recent years has been universally recognized. However, as we can see from the consolidation of the construction industry in Beijing, the waste in construction sites is quite common, and in some cases quite serious.

When the construction department in Beijing was soliciting customer comments, the comrades of Qinghua University gave this account: When they were planting trees near a house built not long ago, a great deal of good timber amounting to 10 sq mm was found buried under the leveled ground. The timber was later dug out and two trucks were filled by them. In fact, it was not only timber that was buried. To save trouble while winding up the construction job, a push with the bulldozer would bury the reinforced concrete, bricks, stones, and even prefabricated boards to be discarded underground. A comrade of a construction company described it graphically: Cleaning up the construction site is like the "sweeping of a tornado," which soon turns well-mixed cement and sand, and a half, or even full bag of cement into a heap of "trash." Some people knowing the inside story said with poignancy: "Gold and silver are simply draining away from the construction sites."

According to a comrade of the construction department, waste in construction sites has become a "common malady" throughout the country. What is the cause of the waste? Based on the analysis of some experts, it is an unfortunate result of the erroneous concept that "corruption and bribery are crimes, but waste is not." It may also be due to some problems with the quality of the construction workforce and the construction materials, and with the coordination between design and construction, but the key issue is the system of management. To overcome the defects of requisitioning materials freely and without planning, using materials without accounting, and failing to protect the finished products, great efforts must be made in the direction of scientific management. The comrades of the construction department believe that in improving the system of fixing the amount of wages for every 100 yuan's worth of finished work and in rewarding conservation, we must consider the increasing proportion of materials and semifinished products in the construction cost as an important factor so as to eliminate the concept of "eating from the same big pot" in the use of materials, to promote the system of economic responsibility for both work and materials, to encourage conservation and raise the level of economic accounting and to use both materialized and living labor properly with realistic gains.

CONSTRUCTION

ANHUI DEVELOPS PLANNED COMMODITY HOUSING

Beijing RENMIN RIBAO in Chinese 28 Jul 86 p 1

[Article by Zhang Zhenguo [1728 2182 0948]: "Anhui Develops Commodity Houses Vigorously"]

[Text] In Anhui, government investment in sporadic house building is being gradually replaced by planned comprehensive development on a commercial basis. This experience is highly regarded by economics experts.

Anhui is one of the earliest provinces in China to develop commodity houses. Since 1981, more than 150 housing development companies have been established in the province. Last year alone, more than 1.4 million square meters of commodity houses--approximately half of the area of all civilian houses in the province--were completed, and the commodity rate reached about 50 percent. The difficult problem of housing for thousands or tens of thousands of enterprises, establishments, government organs and schools was thus solved. At the same time, many houses were sold at full prices to some workers and part of the urban and rural population.

There are many advantages in planned commodity housing. In late June, the ministries and commissions of the central government and the press units in the capital formed an inspection group which spent more than 20 days in an on-the-spot investigation in 12 cities and counties of Anhui. They unanimously agreed that the change to comprehensive housing development on a commercial basis has "three advantages."

First, fulfillment of the urban and rural construction plan. In the past, the money for urban housing came from the state, and the construction was not coordinated. In the countryside, people were even more free to act as they please in building houses. Now, house building is undertaken by the provincial, municipal, or county housing development companies according to plans and based on the demand of the housing market, and the houses together with the supporting facilities are built by streets and areas to be sold in lots or singly at different prices. This will eliminate the defects of each going its own way in building houses of the manor or the sealed-off types. The backward appearance of the cities in Anhui has undergone a great change.

Second, accumulation of state funds. The funds for housing development in Anhui are all raised by the society or through bank loans. Instead of spending any money, the state even withdrew more than 300 million yuan from circulation while the banks earned 10 million yuan in interest last year. The development companies too earned 10 million yuan in profits despite their scrupulous adherence to the principle of "protecting the capital and making only small profits" in selling their houses.

Third, increase in comprehensive economic benefits for the society. Comprehensive development according to plans, compared with sporadic building, can generally reduce the use of land by one-quarter, shorten the construction period by one-fifth, and greatly improve the engineering quality. It can also reduce the number of managerial personnel by 80-90 percent.

The comrades of the inspection group believed that in Anhui which is not yet economically developed, comprehensive housing development on a commercial basis can bring about gratifying changes in the appearance of the cities and the countryside. Their views will be an inspiration to commercialized housing development throughout the country.

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CSO:4006/1242

DOMESTIC TRADE

ECONOMIC COOPERATION IN BOHAI REGION DISCUSSED

Tianjin TIANJIN RIBAO in Chinese 27 May 86 p 1

[Article by Zhang Ying [1728 4481] and Li Lan [2621 1526]: "Mayors from Bohai Region Discuss Economic Cooperation"]

[Text] Horizontal regional economic cooperation will unite 14 municipalities and areas bordering Bohai. Yesterday the mayors of Dandong, Dalian, Yingkou, Panjin, Jinzhou, Qinhuangdao, Tangshan, Tianjin, Cangzhou, Huimin, Dongying, Weifang, Yantai, and Qingdaoshi got together to discuss the establishment of a conference of mayors for the Bohai economic region.

The 14 cities from Dandong to Qingdaoshi are linked by geography. Responsible comrades from cities taking part in the deliberations on the establishment of a conference of mayors unanimously agree that horizontal economic cooperation in the Bohai region not only results naturally from the development of a commodity economy in China but also meets the need of economic structural reform. If the 14 cities bordering Bohai each make full use of their own strengths in light of their respective economic development focus and actively cooperate with one another in a variety of ways on several levels, they will certainly turn unfavorable conditions into favorable ones, increase their productive capacity, and spur economic growth and prosperity.

Leading comrades on the CPC Central Committee take horizontal economic cooperation in the Bohai economic region very seriously and have personally given instructions concerning it. Relevant agencies such as the State Planning Commission, State Economic Commission, and State Restructuring of the Economic System Commission have also given it a good deal of support in many ways. During its short history from theoretical exploration to actual implementation, horizontal economic cooperation in the region has demonstrated a strong vitality and caught the attention of all quarters. That the mayors should get together is an inevitable consequence of this development. The meeting will examine in detail and approve an agreement on the establishment of a conference of mayors for the Bohai economic region. Other items on the agenda are the development of regional resources, the development of a technical market, the strengthening of economic information cooperation and the drawing up of a list of research topics. The meeting will last 5 days.

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FOREIGN TRADE AND INVESTMENT

TRADE SHIFT TO CEMA SAID CAUSED BY DISCONTENT WITH FRG FIRMS

Duesseldorf HANDELSBLATT in German 22 Jul 86 p 7

[Article: "Bureaucracy and Inadequate Infrastructure as Hurdles to Cooperation Among Firms--Peking's 'Restrained Criticism' of FRG Companies"]

[Text] The East Asian Society (OAV) in Hamburg reports on restrained criticism by the Chinese of the German partners who from their point of view continue to be lacking in readiness to invest.

Yet, the FRG's China exports have increased significantly in the past few years--about 130 percent more, worth DM2.25 billion in 1985--which made it possible for the FRG to maintain its position as the fourth largest supplier of China behind Japan, Hong Kong, and the United States. According to the OAV, FRG investments, as compared to those of Hong Kong Chinese, Americans or Japanese, have in fact been modest to date. In the case of the latter two, as a rule we are dealing with "overseas Chinese" with Japanese or U.S. passports.

In contrast to this, the FRG stresses the fact that there are still too many obstacles in the country itself which stand in the way of readiness for increased commitment. Mention is repeatedly made in particular of a legal system which is imperfect from the Western perspective, a complicated bureaucracy, inadequate information, and the continuing inadequate infrastructure in respect to space connected with working and living conditions (due, in part, to exorbitant prices). In addition, according to the OAV, the fundamental weak point in any joint venture with China is the fact that the goods produced are almost exclusively destined for export and not to satisfy the growing demand in the Chinese domestic markets. The production quota of goods which can be sold in the PRC must be negotiated in advance on a case by case basis. The quota adheres strictly to what has been established by the planning authorities as domestic requirements in each particular sector of the market.

The OAV also sees a possible connection between the Chinese criticism and the growing deficits in China's trade with the large Western partners, Japan and the FRG. As a consequence and possible reaction, note must be made of China's increased trade with the Eastern European countries and especially the USSR. Last year's growth rates in trade with Eastern Europe were in part clearly above those with most Western industrial countries.

In addition to the political relations with Eastern Europe, which in the meantime have again improved, the decisive factor for this may well be that Chinese products are easier to sell in the CEMA markets. On the one hand this is due to artificial import restrictions (for example, on textiles in some Western countries) and to the consulting trade which is customary with the CEMA countries, but on the other hand is also due to the fact that a large number of Chinese products still encounter difficulty in gaining a foothold in Western markets because of quality, design, packaging, delivery service, etc. In contrast, facilitated sales opportunities in the CEMA countries contribute to balancing foreign trade, at least with these countries.

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FOREIGN TRADE AND INVESTMENT

LIAOWANG ON REFORM OF FOREIGN EXCHANGE SYSTEM

HK291051 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 38, 22 Sep 86 pp 8-9

[Article by Shuang Mu [7208 2606]: "Reform of the Foreign Exchange System Is Brewing"]

[Text] Latest reports say that by mid July this year, China's foreign exchange revenue had increased by 16.1 percent over the corresponding period of last year while its foreign exchange expenditure dropped by 5.2 percent. This indicates that the situation in foreign exchange payments has improved substantially.

The Situation in Foreign Exchange Payments in the First Half of This Year

During the second half of 1984 and the first half of 1985, aggregate demand far exceeded aggregate supply in China due to the overheated economy. As a result, the demand for foreign exchange rose drastically. Some areas, departments, and enterprises lavishly spent foreign exchange beyond the quotas prescribed by the state plan to import a great deal of raw material with a view to maintaining a high production growth rate. For some time there was a craze of importing household electric appliances and cars. During the period, the foreign exchange reserve dropped considerably.

As a result of continued efforts in the first half of this year, China has improved the situation in foreign exchange payments despite the unfavorable balance of foreign trade. According to an estimate by the department concerned, this year's oil price slump on the international market alone has caused a decrease of \$2 billion in China's foreign exchange revenue. At the same time, the prices of primary products have kept on dropping on the international market. In addition, trade protectionism has been gaining ground in the world again. All these developments have created difficulties for China's commodity export. Although there has been a great demand for commodities both at home and abroad, all the above unfavorable factors have laid obstacles to the implementation of the state's plan governing foreign exchange revenue and expenditure. In light of the development in the first seven months of this year, however, the situation in foreign exchange payments has been improved as compared with that in the corresponding period of last year. By late June this year, China's foreign exchange reserve totaled \$10.473 billion. Statistics show that the increase in foreign exchange

revenue derived from export of silk fabrics and agricultural and sideline products has made up the decrease due to the crude oil price slump.

To be sure, the situation in foreign exchange revenue and expenditure is improving. However, there are still many problems in the existing foreign exchange system. For the past 30-odd years China has been implementing a supply system in foreign exchange allocation and has been exercising administration over foreign exchange by administrative means and the means of mandatory plan. In the wake of the in-depth development of the economic structural reform, a money market has begun to take shape in China and the exploration of a limited foreign exchange market is becoming an inevitable trend.

The unexchangeability of the renminbi has been the fundamental problem in opening a foreign exchange market. For this reason, many people maintain that the process of opening up the foreign exchange market should be postponed. However, economic development over the last two years has strongly demanded an opened foreign exchange market, and specialists in this field have even made urgent appeals. The Chinese authorities are considering carrying out a reform of the foreign exchange system, featuring a "double track" system which depends on both planned management and the market mechanism. The reform will focus on invigorating foreign exchange regulation, regulating exchange rates, working out an international payments plan, improving the system of retention of foreign exchange earnings, controlling interest rates of foreign exchange, taking care of foreign debts, supervising statistical work, and setting up the state foreign exchange reserve fund and the credit fund for the Central Bank.

First Step--Invigorating Foreign Exchange Regulation

The opening of the foreign exchange regulatory market will be the first step toward the opening of the real foreign exchange market. In order to encourage export and earn more foreign exchange, China implemented the system of retention of foreign exchange earnings for local authorities in 1980, making it a definite rule that an enterprise producing export goods is to keep half of the foreign exchange earnings arising thereof. As a matter of fact, units having foreign exchange on hand are not necessarily units spending foreign exchange--some enterprises which earn foreign exchange do not need foreign exchange or do not have to spend all the foreign exchange they earn, while some enterprises which do not earn foreign exchange badly need foreign exchange to import advanced technological equipment or key component parts. This case calls for sale and purchase of foreign exchange between different enterprises.

So, China began to run a foreign exchange regulatory business in October 1980. As a measure to encourage enterprises to earn more foreign exchange, they are now allowed to trade in foreign exchange and the renminbi with each other and can profit by selling foreign exchange at a rate higher than the list price. The amount of foreign exchange regulated in this way in China over the past five years totaled \$6 billion. However, since some localities and departments at different levels have tried by every means to cut the amount of foreign exchange to be retained by enterprises, the amount of foreign exchange that the enterprises have actually obtained is rather limited. In addition, as the

foreign exchange regulatory prices have been set too low, the foreign exchange regulatory market has been very dull these days. In February this year, the People's Bank of China drew up a new foreign exchange regulatory procedure, raised foreign exchange regulatory prices, and promulgated new stipulations on the qualifications of purchasers of foreign exchange as well as the fields that the foreign exchange regulation procedure is to cover. In the past few months, since the implementation of the new procedure for regulation of retained foreign exchange, foreign exchange regulatory business has been started throughout the country. By late June, 54 cases of trade in foreign exchange had been handled in Tianjin Municipality alone, involving 94 units and a fund totaling nearly \$48.3 million.

China's tentative idea on the future reform of the foreign exchange regulatory system consists of two points: 1) to gradually lift the restriction on foreign exchange's regulation prices and tolerate fluctuation of the prices within a certain range in accordance with the supply and demand on the market; and 2) to extend the scope of foreign exchange regulation from one level to another. So far only the foreign exchange earnings retained by Chinese enterprises have been covered by the regulation program. Now the state is considering an extension of the program to cover the foreign exchange earnings retained by local authorities and Sino-foreign joint ventures, or even to cover, when the conditions are ripe, the foreign exchange owned by individuals. At present Shenzhen is experimenting with the process of opening the foreign exchange market; the foreign exchange rate under the regulation program can float as restrictions have been lifted. State-owned enterprises are now allowed to trade in foreign exchange between them, and so are enterprises run with foreign capital, Overseas Chinese capital, and with both Chinese and foreign capital.

According to specialists' suggestion, as soon as the foreign exchange regulation program is operating well, the second step for China to take will be the establishment of a foreign exchange balance fund. In case of imbalance between supply and demand in the foreign exchange market and substantial fluctuation in exchange rates, the Central Bank will intervene in the market by buying or selling foreign exchange.

Foreign Exchange Rates Will Be Constantly Adjusted

For a long time, the renminbi's exchange rate had been set too high and did not reflect its real value. In order to change this unreasonable phenomenon, China decided to reform the renminbi's exchange rate in 1980. While using internally accepted foreign exchange rates for settling foreign trade accounts, China has gradually lowered the renminbi's exchange rate. By early 1985, the renminbi's exchange rate was lowered to 2.8 yuan for \$1. Then the internally accepted foreign exchange rate for settling foreign trade accounts was cancelled and the unitary exchange rate was restored. In the same year, the renminbi's exchange rate was further lowered to 3.2 yuan for \$1. In order to keep in line with the changing price level at home and abroad and to maintain an equilibrium of balance of international payments, China announced on 5 July this year that the renminbi's exchange rate was lowered again by 15.8 percent. Many Chinese and foreign economists and personages of the banking, industrial, and commercial circles who remarked on this decision

generally agreed that this latest substantial readjustment of the exchange rate would have positive influence on China's economy and would be especially favorable to the promotion of export, the restriction of import, and the reduction of adverse balance of international payments. Moreover, it would help to attract more foreign capital and encourage Chinese-foreign joint ventures to develop into export-oriented enterprises.

The Chinese Government has decided to make the reform regarding the exchange rate a long-term task as a part of the reform of its foreign exchange system. In the future, the exchange rate will be constantly readjusted in accordance with the changing price level at home and abroad and with the balance of international payments so that it will be maintained at a more reasonable level.

Setting Up a Foreign Exchange Reserve Fund

China is preparing to establish a foreign exchange reserve fund. As a reserve asset which is to be used to cover international payments in case of emergency, this foreign exchange reserve fund must not be drawn on in normal times. The banking circles have suggested that a certain amount of foreign exchange reserve be built up first in the next five years.

Reforming the Foreign Debt Controlling System

In April this year the state decided that the State Foreign Exchange Administration of the People's Bank of China shall exercise unified management over foreign debt departments throughout the country, thus changing the original structure under which each department operated on its own. The task of the State Foreign Exchange Administration is to obtain information on the country's foreign exchange and foreign debts promptly, accurately, and in an all-round way, to reflect and make suggestions to the state Council and the departments and localities concerned, to provide reliable information useful for the state in making decisions concerning macroeconomic operation, to perform the duties of a state organ in charge of foreign exchange administration, and to exercise supervision over the work concerning foreign debts.

At present, the State Foreign Exchange Administration is preparing to set up a nation-wide foreign debts statistical and monitoring system, carrying out a nationwide overall survey of foreign debts to find out the total amount of the country's foreign debts, and planning to draw up a foreign debts administration procedure.

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FOREIGN TRADE AND INVESTMENT

IMPORTANCE OF FOREIGN TRADE, EXPORTS UNDERSCORED

Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in Chinese 25 May 86 pp 30-31

[Article by Xu Yaozhong [1776 5069 0022]: "All Enterprises Are Duty-Bound to Export and Earn Foreign Exchange"]

[Text] In his "report on the Seventh 5-Year Plan," Premier Zhao Ziyang points out that "our ability to export and earn foreign exchange determines the scope and extent of foreign economic relations, trade, and technical exchange. It also controls the scale and progress of domestic economic development, and is a vital strategic issue impacting the future of the open door policy." As we study the premier's report, we understand better the profound significance of the generation of foreign exchange through export for socialist modernization. But we also discover a couple of muddled ideas that need to be clarified.

Some people wonder why we should export at a time when China does not exactly abound with commodities and is actually short of many things. At issue here is a conflict between long-term and short-term interests. To export what is in demand at home in return for foreign exchange is to meet the needs of long-term national development. The foreign exchange thus earned can be used to finance the import of advanced technology, which, in turn, can enhance our economic prowess and enables us to produce more popular products of an even higher quality. As Premier Zhao Ziyang points out, "The open door policy inevitably involves both export and import. How much we can import depends on how much we export. Only by expanding export can we expand import." Therefore, apart from a minority of vital commodities that have a bearing on the national economy and the people's livelihood, in the case of most other products we should give preference to export whenever there are competing domestic and export demands.

Other people believe that since producing for the world market is a demanding job as exports must be of a high standard, we should take things easy and cater to the domestic market instead. It is exactly this kind of mentality that partly explains the longstanding backwardness of some Chinese products. Any enterprise not motivated to compete internationally will never see its products gain a niche in the international market. What is more, they are bound to be eliminated even from the domestic market in the end. Manufacturers should develop a sense of responsibility to their consumers and

must never sell shoddy, substandard products causing injury to domestic consumers. They should provide the domestic market with first-rate products that are equally good, innovative and inexpensive.

Yet others assume that export and the earning of foreign exchange are the concerns of foreign trade agencies and have nothing to do with other agencies, units, and enterprises. Foreign trade agencies are indeed duty-bound to promote export and earn foreign exchange. It is their responsibility to grasp international market trends promptly, guide enterprises to organize product production, actively secure export sources, and continuously open up world markets. However, foreign trade agencies cannot accomplish export and foreign exchange tasks by themselves; they need whole-hearted cooperation from every quarter. Industrial, agricultural, materials, commercial, supply and marketing, and other agencies all have an inescapable responsibility for planning and organizing export production, providing funds and materials, and producing and procuring agricultural byproducts and native produce. Even cultural and educational agencies are responsible; it is their job to train qualified personnel and conduct propaganda. As for those enterprises presently without export commitments, they should not imagine they have nothing to do with foreign trade and export but must seriously analyze the reasons for their noninvolvement. If the reason is poor-quality products, they must take tangible measures to improve their products and make an effort to meet export requirements without delay. If the reason is related to product variety, specifications, design, packaging, they should promptly upgrade accordingly to satisfy market requirements. If the reason is a temporary failure to find the right customer, then it should vigorously tap new foreign markets in conjunction with foreign trade agencies.

To sum up, all enterprises in the manufacturing business should make a mighty effort to break into the world market. If all agencies, localities, and enterprises develop a strategic vision, think in terms of the general interest, and work hard to export and earn foreign exchange, foreign trade and export will enter a brave new world in the Seventh 5-Year Plan.

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FOREIGN TRADE AND INVESTMENT

GARMENTS CURRENTLY SECOND LARGEST EXPORT

Beijing GUOJI SHANGBAO in Chinese 9 Jun 86 p 1

[Article by Li Jian [2621 0256]: "The Rise of Garments as China's No 2 Export"]

[Text] China has been working hard to make its garment exports sell on account of their high quality. At a time when there has been no significant increase in export volume, the value of China's garment exports has been expanding by an average of more than 11 percent annually in recent years. They were valued at \$1.02 billion last year and \$550 million in the first 5 months in 1986: Garments have become the country's largest export after petroleum.

China began exporting garments in the 1950's, but their dull monotonous fabrics and designs and inability to adapt to changes in the international market have confined them to budget stores and some even ended up on street stalls. In recent years, the nation has diligently modernized old factories, introduced advanced equipment, and improved the conditions of production. The result is garment exports of an ever rising quality.

Chinese textile exports went back a long time and its gray cloth was of a good quality. During the last few years, textile products, especially garments, have grown to account for an increasing share of the country's exports. During the Sixth 5-Year Plan, it exported a total of 1.6 billion pieces of garments, earning \$4.364 billion in foreign exchange, up 90 percent and 129 percent, respectively, over the Fifth 5-Year Plan.

Faced with insufficient fabrics and a lack of designers, export agencies have aggressively pursued production for established brands, processing of imported materials and compensation trade. Famous US brands like Levi's, Sergio Valanti, Wrangler, and van Heusen all import Chinese garments. At present, there are over 1,000 garment processing plants exporting to over 130 nations and regions, including the US, Canada, and the European Economic Community which between them absorb 70 percent of their exports. woolen garments from Guangdong, cotton polyester shirts from Beijing, trousers from Shanghai, large-check plaid shirts from Tianjin, and terry cloth garments from Shandong are all selling briskly overseas. Some products are qualitatively comparable

to their well-known brand-name counterparts abroad. One third of China's garment exports successfully make their way into upscale stores worldwide.

After disclosing the above, Deputy General Manager Zhong Quansheng [6988 3123 4141] of the China National Textiles Import and Export Corporation said, "Right now the world garments market is expanding continuously. Garment exports worldwide are a \$50 billion business. Since China's share, including knitwear and cotton fabrics, amounts to only \$1.5 billion, the prospects for development are excellent. We must export more garments at the upper end of the market with a high added value. Toward that end, we must initiate all flexible forms of trade with foreign businessmen to step up the export of more expensive garments, on the one hand, and develop our own fabric industry, train more fashion designers, establish our own brand-names, and earn more foreign exchange for the state, on the other."

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FOREIGN TRADE AND INVESTMENT

SHANGHAI'S FOREIGN INVESTMENT PLAN FOR SEVENTH 5-YEAR PLAN

Shanghai WEN HUI BAO in Chinese 8 Jun 86 p 1

[Article by Xu Qiuliang [6079 4428 2733] and Zhang Debao [1728 1795 1405]:
"Shanghai To Finance Infrastructural Projects with Foreign Capital"]

[Text] The Shanghai Foreign Economic Relations and Trade Commission disclosed yesterday that the municipality has set the direction and focus of the use of foreign capital during the Seventh 5-Year Plan, taking a four-prong approach:

First, step up major urban infrastructural projects. An effort will be made to use foreign capital to accelerate the construction of the harbor, subway, airport, and the bridge over the Huangpujiang. This is important if the urban infrastructure is to keep up with economic development and conditions indispensable to the realization of Shanghai's economic development strategy are to be created. Second, increase export production and import substitution in order to enhance Shanghai's ability to earn foreign exchange. Third, strengthen major technical transformation projects and put together projects in the tertiary industry to provide tourist and cultural facilities so that the municipality can fulfill its multi-functional role as an urban center. Fourth, intensify the development of such new areas as Minhang, Hongqiao, and Caohe to provide overseas investors with an attractive investment environment.

Vice Chairman Lu Guoxian [7120 0248 6343] of the municipal Foreign Economic Relations and Trade Commission said, "To support Shanghai's transformation and vitalization, the national government has allocated us as much funds as the country's present financial state allows. But they still fall short of actual requirements. Therefore we welcome foreign investments in urban development."

Lu Guoxian also revealed that as Shanghai is further opened to the rest of the nation and the world, it is gradually shifting its development thrust to the construction of new areas, particularly along the east bank of Huangpujiang, and toward Hangzhou Bay and the northern and southern flanks of the mouth of Changjiang. The drive to develop new areas will be accompanied by industrial redistribution, an intensification of satellite town development, and an expansion of major market towns in suburban counties so that rural and urban areas will be neatly balanced in the new Shanghai. In light of the municipality's economic development strategy, Shanghai industry must replace its present extensive model with an intensive one. It must rely mainly on improved technology for growth, instead of depending merely on increasing inputs, as it does now. Such changes must be effected if the equipment in key traditional industries as well as the technical quality of their products are to approximate the most advanced in the world.

FOREIGN TRADE AND INVESTMENT

BRIEFS

HEBEI CHEMICAL EXPORTS SOAR--Since the beginning of this year, Hebei has stepped up its exports of chemicals in accordance with new policies aimed at giving priority to exports. During the first 6 months of this year, 57 different products totalling a value of 56.57 million yuan were exported. This represents a 42.5 percent increase over the number of items exported last year and an 88.6 percent increase over last year's total value. [Excerpts] (Shijiazhuang HEBEI RIBAO in Chinese 31 Aug 86 p 1)

YUNNAN CHEMICAL EXPORTS--Yunnan's Chemical Industrial Import/Export Corporation successfully expanded exports during the first seven months of this year and by the end of July had accumulated \$8.15 million thus prematurely exceeding its annual quota by 135 percent. In 1986, this corporation has consistently supported reform, developed lateral economic cooperation, and looked at different ways to resolve transportation problems. It has also put a premium on quality, reputation and expansion of its work in foreign markets. July's exports set an all time record by bringing in a total of \$2 million. [Excerpts] (Kunming YUNNAN RIBAO in Chinese 23 Aug 86 p 1)

HEBEI TRADE TALKS CLOSE--Hebei's annual International Economic and Technological Cooperative Export Commodity negotiations closed on 10 September. 950 businessmen from 22 different countries and areas were present. They entered into contracts for \$25.48 million worth of Chinese exports. Contracts were signed to import a total of 74 different kinds of technological items whose total value amounts to \$53.7 million. Ready foreign exchange totalling \$40.13 million will be used to import 64 of the above items and foreign capital will be used to pay for the remaining 10 worth \$13.57 million. In addition, a statement of cooperation and a statement of intention were also signed. [Excerpts] (Shijiazhuang HEBEI RIBAO in Chinese 13 Sept 86 p 1)

CSO: 4006/43

SPECIAL ECONOMIC ZONES

ZHUHAI ECONOMIC ZONE FLAWED BY POOR PLANNING, MISMANAGEMENT

West Berlin TAGESSPIEGEL in German 22 Jun 86 p 13

[Article: "Special Zones Have Not Proven Their Value--Foreign Investments Lacking"]

[Text] For the more than 50,000 Chinese workers who were brought to the Zhuhai special economic zone to build a deepwater harbor, industrial complexes, and residential settlements, employment at monthly wages of 300 Chinese yuan (approximately DM215) and more, which is three times what they receive in their home provinces, has paid off. On the other hand, the balance sheet of the economic experiment 6 years after it was started is sobering for the city. Entire rows of newly built residential and business quarters, which are gradually making Zhuhai like the skyline of neighboring Portuguese Macao, remain empty. The stream of potential investors from Western industrial countries has declined sharply.

With 200,000 inhabitants and an area of 15 square km Zhuhai, which is located on the west bank of the mighty Pearl River delta, is the smallest of the PRC's four special economic zones. Vested by Peking with extensive special powers and capital on a preferential basis--since 1980 almost 8 billion yuan (approximately DM6 billion) has been invested in the infrastructure alone--as market economy and technological showcases they were supposed to attract foreign investment and build up a modern export economy. Yet, as the State Council established at the beginning of the year at a special conference, undesirable developments have endangered the long-term success of the most important foreign trade experiment of the liberal reform policy: excessive investments in construction projects made the zones dependent on infusions of capital from the state treasury for a longer period of time than planned. The criticism from Peking is that they profited not from exports, but rather from illegal transshipping of imported consumer goods, which are much in demand, to the interior.

Zhuhai, too, is feeling the consequences of this critical stocktaking and the more heavily controlling intervention by the central government. Zhen Defeng, deputy local planning chief, acknowledges that "we have invested too much in the development of tourism." However, the initial enthusiasm of the planners was also subdued by recognizing that establishing an innovative industrial structure with internationally competitive products is, in the absence of

experience, more time-consuming and troublesome than had first been anticipated. An example of this is the radio cassette recorder factory which was built 2 years ago as a model and was equipped with the most modern Japanese production technology. Of the 200,000 recorders per year only about 20 percent could be sold to the Near East and Eastern Europe because, according to head engineer Wu Guixing, "the design is outmoded."

The strong dependence on Hong Kong and Macao turns out to be an additional obstacle to technological development, while investors from the United States, Japan, and Western Europe--put off by the high export taxes and the lack of trained work forces--have thus far held back from the processing industry with larger projects. Of the approximately \$280 million (about DM644 million) which has come to Zhuhai as foreign capital, three-fourths is from the neighboring colonies.

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CSO: 4620/60

POPULATION

PRELIMINARY ENQUIRY INTO FLOATING POPULATION

Beijing RENKOU YU JINGJI [POPULATION AND ECONOMICS] in Chinese No 3, 25 Jun 86
pp 3-5

[Article by Zhang Qingwu [1728 1987 0063] of the Public Security Bureau]

[Text] The floating population is discussed here in both its inflow and its outflow. The outflow of the floating population refers to people who have left home temporarily. This includes people who have been gone from their place of household registration for a relatively long time and have not yet returned. The influx of the floating population refers to people residing temporarily in a district. It includes some people residing in the district who are waiting to establish household registration in the district (also called people without a household). The floating population can be divided on the basis of mobility into people who are traveling and people who are temporarily residing somewhere. However, it excludes people who go to market for the day or people who have already completed procedures for a one-way transfer of their household registration.

In recent years China's floating population has been growing very rapidly. Its size, range, and impact are unprecedented. The floating population is especially concentrated in the cities, townships, stations, docks, and tourist areas where it causes a great shortage of places on public passenger transports such as trains, highways, water transport, and civilian airliners. Many people are concerned about this social problem.

How should we regard the problem of the floating population in everyday life? What is the relationship between the floating population and the reforms of the economic system, social production, construction, and the livelihood of the people? What are the causes of large population movements? This article is a preliminary analysis of these questions.

Size of China's Floating Population

What is China's daily floating population? Lacking specific statistical data, it is difficult to make an accurate quantitative analysis of this problem. China has not yet carried out a thorough survey of the floating population. Here I will only consider some new developments and, relying on preliminary material I have collected, merely make a rough estimate of the size of and trends in China's floating population.

Statistics reveal that the 1982 Chinese daily floating population was only about 30 million. The principal evidence for this is that in 1982 Chinese railroads, highways, water transport, and civilian air transport provided a total of 4,289,360,000 passenger-trips (Footnote 1) (State Statistical Bureau, ed., "China Statistical Yearbook 1983," p 302) This is an average of 11.7 million people or 11.7 percent of the domestic population per year. The second piece of evidence is that the Third National Census data show that in 1982 more than 6,356,000 people had been absent from their place of household registration for more than a year. There were 4,755,000 people as well who had neither rural nor urban household registration for a total of 11.12 million people or 11.1 percent of the total domestic population. These two categories total 22.82 million; if we add to these the floating population temporarily residing outside their place of household registration, China's floating population can be conservatively estimated at 30 million people. The floating population has grown especially rapidly over the last 2 years.

Analyzing the situation in 1985 leads to an estimate which exceeds 40 million for the regular floating population. According to estimates by the public security bureaus of Beijing, Tianjin, Shanghai, Shenyang, Changchun, Harbin, Nanjing, Guangzhou, Wuhan, and Xi'an of the daily floating population at the end of March 1985, the floating population totaled 4,383,000 or 14 percent of the urban population. Of these, 1,585,000 or 36.2 percent of the floating population were in transit, while 2,799,000 or 63.8 percent were residing in the city temporarily. The ratio between the two is about 2 to 1. Estimating on the basis of the size of the floating population in the cities relative to the urban population, China's cities and townships have a floating population of more than 20 million. The countryside has a smaller floating population. If we estimate it as 3 percent (Footnote 2) (BEIJING RIBAO, 16 December 1985, 4th edition) of the rural population, it certainly totals more than 20 million people. Estimates of China's floating population on the basis of other data are also close to 40 million. An advisory from the NEW CHINA NEWS AGENCY on 15 December 1985 stated that 20 million peasants work in construction and in tertiary industries in the cities. (Footnote 3) (In 1985, according to a survey in the proportion of the floating population, the total population in Zhejiang Province, Cangnan County, totaled 3.6 percent of the total county population; in Shanghai, Baoshan County, 4.2 percent; and in Jiangsu Province, Danyang County, 4.6 percent. According to statistics for Shaanxi Province, Shanyang County, 35,000 or 9.3 percent of the county labor force have gone to work outside. The figure for Zhejiang Province, Yongjia County, is 4.7 percent.) These figures exclude movement between the cities and townships or between the rural areas. We can base our estimates on the use of China's passenger transportation facilities. Passenger traffic in 1979 averaged 7.93 million person-trips a day. This figure rose to 12.89 million in 1983, for an increase of 1.2 million a year. (Footnote 1) (State Statistical Bureau, "China Statistical Yearbook 1984," p 277) We can estimate that average daily passenger traffic exceeded 15 million in 1985. Taking this as the figure for the floating population in transit, we can infer from the 2:1 ratio of the 10 largest cities that the floating population temporarily residing in the city is 30 million. Adding these two figures also gives us a total Chinese floating population of over 40 million.

Not only is China's floating population very large but with material and cultural improvements in the lives of the Chinese people, the composition of this population has also changed considerably. Today's floating population is mostly trading, working, performing services, running errands, sightseeing, studying, participating in technical exchanges, visiting relatives, etc. This reflects the profound changes in the material and spiritual lives of the people after China's opening up to the outside world, invigorating the domestic scene, and the unmistakable improvement in the economy. It's a sign of the times.

Causes of Increases in Floating Population

The rapid increase of the floating population in a society, considered from the standpoint of the commodity economy, is the necessary consequence, under the condition of China's socialist commodity economy, of the growth in the production and circulation of commodities and steady increases in regional economic integration, as well as the steady increase in the flow of goods and materials between the city and the countryside. First, the opening to the outside world, the invigoration of the domestic scene, the expansion of the areas where commodities circulate, the increase in the number of channels for the circulation of goods, and the extension of the stages of commodity circulation affect the floating population. This is especially true when many different economic components coexist, and when commodity circulation is affected by various types of economic organization, management methods, and channels of commodity circulation. A large increase in the number of people working in various enterprises involved in the transportation, sale, etc. of commodities results from these factors. Second, manufacturing and commercial enterprises are competing, and have increased managerial autonomy. The state, within defined limits, allows enterprises to arrange their production to meet the demands of the market, to make trips to purchase goods and materials, to practice several forms of management, and to market what they produce. This increases the number of factories and commercial enterprises which are involved in more than one area. Horizontal economic ties become closer. More people are needed every day to produce, buy, and sell in this kind of production and circulation system. Third, the number of households specializing in independent production and commerce has grown to 30 million. Most of these buy and sell small commodities, are spread over a wide area, and have great mobility. Many people travel about as they exchange commodities. According to statistics from a Jiangsu Province survey, of the 5,853 self-employed peasant households in Shazhou County at the end of 1982 more than 65.4 percent left the province on business, thus contributing to the flow of population between provinces. Fourth, the peasant markets in the city and in the market towns are flourishing. This produces great regular and irregular flows of population between the city and the countryside as people come from all quarters to crowd into the cities and market towns. They provide the material foundation for the peasant markets which improve the supply of foodstuffs in the city. Moreover, the peasants as they return from the city to the countryside take with them the manufactured goods of the city and boost the exchange of goods and materials between the city and the countryside.

In the areas of production and construction we can see the influence the development of the forces of production and changes in the distribution of

production, progress in science and technology, the formation of networks of trade and communications, the exploitation of natural resources, the growth of the villages and the market towns, the construction of the cities, and the rise of tertiary industries has on the scope, size, and route of the flow of the population. This is because the task of socialist construction requires the planning of the entire national economy. As the planned state economy accelerates and expands its reproduction, we ask people involved in economic activities that they move into the areas the state has designated as key areas for construction and that they adjust their activities to the needs of the development of production. For example, the construction and repair of railroad lines, the opening up of the border areas, the harvesting of the forests, the exploitation of mineral resources, and the building of the special economic zones along the coast can absorb a great deal of the surplus labor force of the interior and of people trained in science and technology. Moreover, the cities are growing and there is always more to build there. The number of workers needed for construction and repair projects is growing and the urban construction brigades cannot meet the demand for construction in the city. Thus ever more of the surplus labor force of the countryside is drawn into the city to do construction work there. In 1975 Wuhan absorbed 31,000 workers and peasants from other areas for construction. By 1984 this figure exceeded 100,000 and the concerned departments still felt pressed by a labor shortage. According to 1982 statistics from the Jiangsu department responsible for construction laborers in 1982, more than 550,000 peasants work in construction in the villages. Of these, 180,000 worked in cities in Jiangsu Province and 150,000 participated in construction in other provinces. The rise of industry in the villages and townships requires more support of many different kinds from the cities in the areas of popularizing commodities, transferring technology, and processing and ordering parts. This brings more frequent contacts between the enterprises of the cities and the enterprises of the townships and rural areas due to business and exchange of technology. These activities are also an important cause of the flow of the population between the cities and the townships.

In the context of the reforms and trends in the development of the economic system the mobility of scientists, technicians, and the labor force is an aspect of the floating population which cannot be ignored. The national economy requires the steady increase in the scale of production, the adjustment of the structure of production, and technological innovation. Moreover, the original deployment of the scientists, technicians, and the labor force is unbalanced. This situation naturally leads to the rational flow of scientists, technicians, and labor force between regions, between departments, and between industries into occupations in which they can fulfill their own specialized talents and start up new enterprises. We should likewise recognize that in the reform of the Chinese economic system in order to transform technology, adjust the occupations, reorganize the structure of the enterprises, and expand tertiary industries, scientists and technicians in some enterprises will have to seek new employment. The opening up of new industrial sectors going on at the same time offers new opportunities for employment and is absorbing new employees. Moreover, China's labor allocation system is too rigid. Because of the reform of the personnel and labor system, the labor market is opened up,

people apply for jobs on their own, applications are invited for a job, people choose their occupations freely, etc. All these changes stimulate the mobility of the employed population.

Many different aspects of social life also make the floating population increase, in particular, the steady growth of a flourishing economy, the stability of society, and the rapid raise in the material and cultural standard of living of people in the cities and in the countryside. Sightseeing trips, honeymoons, vacations of staff, workers, and students, festivals, seeking refuge with one's relatives, and gatherings of relatives as well as of people going to the countryside to help out with farm work, etc.--all have a strong influence on the rapid growth of the floating population. For example, in 1984 the principal tourist attractions of Beijing Municipality received 80 million man-visits from Chinese and foreign travelers. Ninety-seven percent of these visitors were Chinese. (Footnote 1) ("CHINA TOURISM NEWS," 8 January 1985) In the same year Hangzhou and Guilin received more than 30 million man-visits. (Footnote 2) (NORTHWEST UNIVERSITY JOURNAL, No 3, 1985) In recent years more than 1 million skilled craftsmen from the rural counties of Zhejiang Province have traveled throughout the country performing many different kinds of jobs as they move about. (Footnote 3) (POPULATION RESEARCH, No 5, 1985, p 20)

We Should Pay Attention to Problems Created by Floating Population

We should realize that the rapid increase in China's floating population is riding the historic tide of reform. It actively promotes the development of the socialist construction of enterprises. We could say that the large floating population of recent years is a vivid expression of the prosperous development of China's socialist enterprises in recent years. We should ascertain the principal trends in the movement of the floating population. However, we should also pay attention to some problems which have arisen with the rapid increase in the floating population.

First, the rapid increase in the floating population puts tremendous pressure on passenger transportation facilities such as the railroads, highways, water transport, and civilian aircraft. Moreover, with increased production and the invigoration of the economy, passenger traffic will continue to increase. The problem of tight supply caused by the limited capacity of transportation facilities and demand which exceeds capacity will become even more acute. Thus the problems of increasing passenger transportation capacity, enthusiastically improving the quality of transportation, convenience, safety, and proper service to passengers, making transportation routes which go everywhere, and having passengers go on their way without difficulties are badly in need of solution.

Second, the rapid increase in the floating population is placing a heavy load on urban public facilities and on enterprises such as restaurants. Difficulties in getting a place on a transport and in finding a place to stay will not be solved for a long time. For example, a floating population comes and goes to Beijing daily, yet there are little more than 200,000 beds in the city's hotels and hostels. Although temporary arrangements have been made for more beds, travelers still have a hard time finding a place to stay. This is

an important topic to be considered in the reform of the cities, urban planning, and the construction of urban government.

Third, we cannot prevent the appearance of some scum amidst the rapidly growing floating population. Some lawbreakers change their names, disguise themselves, and hide by melting into the floating population. They open private bank accounts, make phony documents, and buy and sell thin air. Some are swindlers who evade taxes; declare bankruptcy opportunistically to make a big profit; or travel about committing crimes which disrupt the order of society. According to 1983 Shanghai statistics on cases throughout the municipality in which the criminal was captured, 6.8 percent came from other areas. In 1984 this figure increased to 10.8 percent. Evidently sufficient attention should be paid to the better management of the floating population.

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CSO: 4006/1201

TRANSPORTATION

CHANGE TO DIESEL ENGINES ON ZHEJIANG-JIANGSU RAILWAY REPORTED

Beijing RENMIN RIBAO in Chinese 15 Jul 86 p 1

[Article by Wei Yongming [7614 3057 2494]: "Transformation to Dieselization on Zhejiang-Jiangsu Railway Begins; Direct-route Freight Trains To Use Dongfeng No 4 Engines; Annual Transport Capacity To Increase by More Than 3 Million Tons"]

[Text] Beginning 10 July, 13 direct-route freight trains were switched over to using Dongfeng-type engines. Carrying capacity of each train has increased from 2,300 tons to 2,800 tons, and annual transport capacity may increase more than 3 million tons. From now on, this most difficult section of the rail network will begin to shift from steam to diesel engines.

The Zhejiang-Jiangsu Railway is the only line connecting eastern and southern China and there tends to be a concentration of heavy freight traffic and trains, which has reached the saturation point, resulting in a seriously inadequate carrying capacity. This has been an outstanding problem in the transport work of the entire line. Since the implementation of the output-related system of labor responsibility, the Shanghai bureau has, based on the plans of the Ministry of Railroads, opened up the Zhejiang-Jiangsu line, beginning with engine renovation and augmenting pulling power. The bureau has used the 20 ND5 engines donated by the Jinan bureau on the Shanghai-Hangzhou line, allowing the attachment of 25 Dongfeng locomotive engines to the Xiangtang maintenance section of the Zhejiang-Jiangsu line. In little more than 1 month's time since early June, the engines have been put to full, normal use on the line. According to the investigation and verification of the appropriate departments, this is an unprecedented event in the history of railway dieselization in China. At present, five direct-route trains have switched over to using diesel engines, while the remaining eight are expected to do so before the Ministry's scheduled deadline at the end of August.

The work will involve the maintenance sections of Nanyu, East Nanjing, Xiangtang, Pingxiang, and four other areas. Under the painstaking organization of the maintenance office of the railroad bureau, these units have completely fulfilled their goals and tasks. After arriving at Xiangtang, the 50 train attendants sent from the Nanyu and East Nanjing maintenance sections, in the spirit of being the masters (of their own railway), in mid-June participated in trial runs and trained local personnel without nitpicking over compensation, playing a key role in ensuring the realization of this strategic policy decision of the

ministry and bureau. The 30 train attendants transferred by the Nanchang bureau within 1 month's time completed the entire course of dieselization training, from practice runs to solo operations, a program that normally takes 3 months to finish, passing the trial run in early July. At present the Shanghai bureau is making preparations for the dieselization of the entire Zhejiang-Jiangsu line.

12221/13045

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TRANSPORTATION

IMPROVED RESEARCH IN RAILWAY SECTOR URGED

Beijing RENMIN RIBAO in Chinese 16 Jul 86 p 2

[Article by Sun Baorang [1327 1405 5816]: "Research on Capital Construction in the Railway Sector Must Be Strengthened"]

[Text] Capital construction investment in the railway sector represents quite a large sum of money. How to use this money properly is the key to the success or failure of our output-related system of responsibility. According to our understanding, the design and budgetary estimates of some major construction projects greatly exceed the limits for investment set by the state, and there may be a rather large gap in the total volume contracted for. If the investment gap is not resolved, and if errors that have been made before are repeated, the necessary task of improving old lines and creating new ones cannot possibly be completed.

To utilize capital construction investment properly requires, in addition to the important work of improving scientific predictions and conducting painstaking analyses and research on the part of the planning, capital construction, and policy-making sectors, the organization of forces to undertake verification research to provide a scientific basis for certain fundamental problems of principle relating to the rationalization of investment, design improvement, and the promotion of scientific policy making.

I. Improving Planning To Strive for Investment Rationalization

A plan that strikes to the root of the problem of investment rationalization is the effort to do a good job of mid- and long-term planning for the railroad network. In the past, due to the lack of overall planning and the custom of decisions on key construction projects being made arbitrarily by one individual, plans were made "in bits and pieces," or in consideration of partial, temporary gain only, or there was a lack of focus as to what should be stressed and what sort of construction speeds should be attained, which led to frequent changes in plans or a disruption of normal procedure. In some cases, a large input resulted in poor production output. Therefore, during this present stage of basic stability in the orientation and the program of economic construction, the great undertaking of improving railway network planning should be placed on the agenda as soon as possible in order to proceed with railroad construction during and after the Seventh 5-year Plan and to rationalize investment.

If we are to bring about an upswing during the Seventh 5-year Plan, we must strengthen and renovate the busy, thriving 16,000 km-long northeast coastal line and renovate each route, line, and rail hub, looking both ahead and behind to do comprehensive research on a whole series of planning problems.

In addition, in setting our sights on long-term planning, we need to study and inquire into railway models for coastal economic development zones--for example, high-speed train lines that exist in some developed countries and the direction of development of the east coast industrial structure designated according to the third part of the state's Seventh 5-year Plan--and into its effect on rail transport and construction.

II. Major Questions Regarding Improving Design and Reducing Production Costs

Current building costs for constructing new lines with large freight capacities are particularly high--from over 8 million to nearly 10 million yuan per kilometer designed for electrified dual-track lines. In view of the continued need for the construction of quite a few high freight volume lines and the limitations of current design methods in putting single-track lines to the best use, the laying of double-track rail frequently has to be arranged ahead of time, from the presentation of tasks to actual planning. Also due to the tendency to conservatism in the choice of slope standards in areas of difficult terrain, building costs for these lines remain high. Therefore, the use of heavy-burden freight cars, communications signaling equipment, and other new technologies in expanding single-track capacity, thereby lengthening the period of transition to double-track, and the appropriate selection of norms should be the focal points in lowering construction costs.

A. Models of design programs for the use of large-capacity freight cars of high hauling capacity on new lines and of signal equipment and other new technologies must be determined based on terrain and pulling power: the distribution of transitional areas from single to double track and the best coordination of car weight, economic rationality, intervals for the expanded construction of double-track lines based on the needs of different growth rates of different transport capacities, and the economic nature of construction in stages.

B. Principles of design for the shift from single to double track as regard such large-scale engineering projects as bridges and tunnels. In the early stages of construction the goals of the economy must be attained; in the second stage the construction process must be facilitated and the goals of flexibility and economic rationality of dynamic investment should be reached.

This issue is now being handled by the main bureau for capital construction, which has begun by organizing readjustment and research into bridge construction and has adopted the method of accepting bids in order to improve quality. It is hoped that the resulting fruits will be widely utilized, and that other specialities will catch up in this regard.

C. Integration of technical progress in pulling power with the selection of slope norms according to local conditions. It seems that the selection of

rail line locations in China has proceeded on a course opposite to that of adapting to local conditions. This is one of the major reasons for large engineering scales and high construction costs. It would seem rational to call for high slope norms in consideration of large hauling capacities or heavy-capacity cars, but it should be realized that due to the accelerated pace of technological progress in pulling power, engines used on major lines 10 years from now may not have the same pulling and braking power as those used at present. Therefore, we should break through the old frameworks and continue to reform in order to expand capacity, given definite slope norms or selecting economically rational slope norms according to local conditions based on the needs of a definite transport-hauling volume and train weight, thereby lowering construction costs.

III. Foundation of Scientific Policy Making--Appraising Economic Returns and Fixed Norms for Operational Expenditures

A. Regarding the social and economic benefits of railroad construction, in 1984 the planning commission put forth Document No 1,879 entitled "Provisional Measures for Economic Evaluation in Feasibility Studies for Railroad Construction Projects." There still remains the problem of imperfect methods to calculate social benefits and of the amount of time required to retrieve the original investment, which must be further studied.

B. The social benefits of hauling coal by rail. Whether or not grounds of evaluation used in current research reports and relevant theses are scientific is worthy of analysis and study. From the reports or theses cited, it can be seen that the benefits of railroads have been exaggerated and the irrationality of construction costs has been covered up. Therefore, it is necessary to conduct research and suggest quantitative, scientific methods of evaluation.

The "Norms and Explanations for Expenditures in Railway Design Plans" originally approved by the Ministry of Transportation in 1974 is now out of date, as there have been a great many changes, and should be readjusted and altered as soon as possible.

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